DOCUMENT RESUME

ED 417 060 RC 021 418

TITLE	Poverty Reduction and the World Bank. Progress in Fiscal 1996 and 1997.
INSTITUTION	World Bank, Washington, DC.
ISBN	ISBN-0-8213-3801-3
PUB DATE	1997-00-00
NOTE	195p.
AVAILABLE FROM	Office of the Publisher, World Bank, 1818 H St., N.W., Washington, DC 20433 ($20).
PUB TYPE	Reports - Evaluative (142)
EDRS PRICE	EDRS Price MF01 Plus Postage. PC Not Available from EDRS.
DESCRIPTORS	Access to Education; Agriculture; Change Strategies; *Economic Development; Foreign Countries; *Human Capital; National Programs; *Poverty; *Poverty Programs; *Program Evaluation; Womens Education
IDENTIFIERS	Access to Health Care; *International Aid; *World Bank

ABSTRACT

This report reviews progress in implementation of the World Bank's poverty reduction strategy during fiscal 1996-97. Chapter 1, "The World Bank's Poverty Reduction Strategy and Future Directions," outlines elements in the poverty reduction strategy: policies to promote broad-based labor-demanding growth and increase the productivity and economic opportunities of the poor; policies and institutions to improve access to social services, especially basic education, primary health care, and nutrition; and safety nets and poverty-targeted programs for those who are heavily risk-prone or who cannot take advantage of income opportunities. Chapter 2, "Progress in Fiscal 1996 and 1997," examines progress in the preparation and quality of poverty assessments and country assistance strategies; reviews the Bank's poverty-targeted lending; and discusses the Bank's recent work on project participation by stakeholders, gender issues, and poverty monitoring in various regions of the world. Chapter 3, "Safety Net Programs: Lessons from Country Experience," examines recent experiences in safety net programs, which complement the main strategy of broad-based growth and investment in human capital. Appendix A describes the Bank's analytical work on poverty and presents summaries of poverty assessments for 32 countries. Appendix D describes objectives of the Program of Targeted Interventions (PTI) and lists 156 PTI projects with details on their specific objectives and strategies; 75 of these addressed human capital development. Education projects focused on female literacy, skills for the informal sector, teacher education, provision of school materials, and educational facilities construction. Other appendices provide further details on poverty assessments, poverty-focused structural adjustment loans, poverty-focused emergency recovery loans, annual lending to selected sectors, regional plans for poverty monitoring, and projects and adjustment operations with safety net components. Contains 29 references and 19 data tables. (SV)

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Progress in Fiscal 1996 and 1997

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First printing December 1997

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Front cover: Gathering lake salt in Ghana; Curt Carnemark, The World Bank
Back cover: Constructing a rural road in Bangladesh; Thomas Sennett, The World Bank

ISBN 0-8213-3801-3

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Acknowledgments

This report was prepared by K. Subbarao and Parita Suebsaeng under the direction of Michael Walton and the overall guidance of Masood Ahmed. Lionel Demery, Minh Chau Nguyen, Joanne Salop, Lynne Sherburne-Benz, and Lyn Squire provided extensive comments and suggestions. Invaluable assistance was provided by Alexander Arenas, Chitra Bhanu, Abeba Taddese, and Stella Tamayo. The report draws on inputs from the World Bank's regional vice presidencies, provided by the poverty coordinators and their alternates: Robert Ayres, Benu Bidani, Christine Jones, Valerie Kozel, Giovanna Prennushi, Nicholas Prescott, Sarosh Sattar, Willem van Eeghen, and Jack van Holst Pellekaan. Additional inputs were provided by Shaohua Chen, Winona Dorschel, Rajiv Kochar, Nthenya Mule, Josette Murphy, Antoine Simonpietri, Rani Tudor, and Jaime Zaldivar. Helpful comments were also received from Jaime Biderman, Soniya Carvalho, Michael Cohen, Christiaan Grootaert, Margaret Grosh, Hans-Juergen Gruss, Ishrat Husain, Fred Jaspersen, Emmanuel Jimenez, Olga Jonas, Keiko Kokubun, Callisto Madavo, John Page, Guillermo Perry, Martin Ravallion, Enrique Rueda-Sabater, John Shilling, and John Williamson. The report also benefited from discussion by the Executive Directors, whose comments were incorporated in the final text. Meta de Coquereaumont edited the report, and Alexander Arenas, Maria Paz Felix, and Precy Lizarondo provided excellent technical support. The assessment summaries were prepared by the World Bank country teams. They are based on completed poverty assessment reports.

Abbreviations and acronyms

ARPP	Annual Report on Portfolio Performance of the World Bank
CGAP	Consultative Group to Assist the Poorest
CAS	Country assistance strategy
CEPAL	United Nations Economic Commision for Latin America and the Caribbean
CFA	Communauté financière africaine
GDP	Gross domestic product
GNP	Gross national product
EAP	East Asia and the Pacific
ECA	Europe and Central Asia
EDI	Economic Development Institute of the World Bank
ERL	Emergency recovery loan
FSU	Former Soviet Union
IBRD	International Bank for Reconstruction and Development (World Bank)
IDA	International Development Association
LAC	Latin America and the Caribbean
LSMS	Living Standards Measurement Study
MENA	Middle East and North Africa
NGO	Nongovernmental organization
OECD	Organization for Economic Co-operation and Development
OED	Operations Evaluation Department of the World Bank
PA	Poverty assessment
PER	Public expenditure reviews
PHN	Population, health, and nutrition
PPA	Participatory poverty assessment
PPP	Purchasing power parity
PTI	Program of targeted interventions
RIL	Rehabilitation import loan
SAL	Structural adjustment loan
SAPRI	Structural Adjustment Participatory Review Initiative
SAS	South Asia
SECAL	Sectoral adjustment loan
SDA	Social Dimensions of Adjustment
SPA	Special Program of Assistance
SSA	Sub-Saharan Africa
UN	United Nations
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
WDR	*World Development Report*

Executive Summary

Tremendous progress has been made in reducing poverty in the developing world. Over the past four decades social indicators have improved in all regions. Over the past two decades, East Asia has achieved dramatic reductions in poverty: from 6 out of 10 living on less than $1 a day in the mid-1970s to 2 out of 10 in the mid-1990s. There have also been declines in recent years in the incidence of poverty in most of South Asia and in parts of the Middle East and North Africa and Latin America. Despite this progress, however, much remains to be done. Over 1 billion people live on less than $1 a day, and almost 3 billion live on less than $2 a day.[1] In 1995 more than 9 million children in developing countries under the age of five died of avoidable causes. Except in East Asia the number of poor people actually increased between the late 1980s and the early 1990s. In most countries there are major disparities in income and access to education and health care, sometimes associated with broader social exclusion. Minimizing these disparities is a major objective in the World Bank's efforts to help client countries reduce poverty and improve living standards. This challenge of inclusion—promoting equitable access to economic and social benefits of development regardless of nationality, race, or gender—is the key development challenge today.[2]

This report reviews progress in implementation of the World Bank's poverty reduction strategy, updating the more comprehensive report for fiscal 1995, *Poverty Reduction and the World Bank: Progress and Challenges in the 1990s* (World Bank 1996e). The first chapter lays out the Bank's poverty reduction strategy and highlights the basic elements of a future work program to reduce poverty. The second chapter describes the Bank's progress in supporting poverty reduction during fiscal 1996 and 1997, with recommendations for further improvements. The third chapter examines recent experiences with safety net programs, which are meant to complement the main strategy of broad-based growth and investment in human capital.

Future Directions of the World Bank's Poverty Reduction Strategy

The Bank relies on a multidimensional approach for monitoring its poverty reduction effort. It focuses on factors influencing consumption and on social indicators of poor households and increasingly makes use of both traditional and participatory techniques for analyzing and monitoring outcomes. Since the early 1990s poverty assessments and the Program of Targeted Interventions (PTI) have been two key elements of this approach. Poverty assessments provide a profile and analysis of poverty in member countries, while the PTI is used to track the Bank's poverty-targeted lending. With the first round of poverty assessments nearing completion, the Bank has reassessed its priorities for poverty analysis and strategy. Parallel with its own poverty monitoring, the Bank will emphasize the strengthening of each country's own capacity to generate and use data for monitoring and diagnosing poverty and will make data and analysis more easily available both within and outside the Bank. The Bank will also focus on developing practical approaches for reevaluating the impact of policies and investments on poor households.

To ensure that the Bank makes the greatest contribution that it can to poverty reduction, the recently formed Poverty Reduction Board within the Poverty Reduction and Economic Management Network has identified two shifts in implementation strategy:

- A shift from *describing* poverty to *formulating* strategies for reducing poverty. Much of the work in this area will be linked to operational strategies in individual countries.

- A shift from *counting* poverty-focused projects to assessing their impact on the poor. The Bank is moving toward better evaluation of the impact of lending and projects on household welfare.

World Development Report 2000 will focus on poverty; analytical work, consultation, and lessons of operational experience will all build toward that report. Specific activities are being planned by the Poverty Reduction Board to reflect the shifts in the Bank's approach to poverty analysis, including support for a stronger focus on poverty reduction in country assistance strategies and more attention to developing effective mechanisms for producing and analyzing data on the poor. A key function of the Poverty Reduction Board will also be the management of global knowledge on poverty. Knowledge management and sharing systems to be initiated in 1998 will cover safety nets and transfers to the poor and the evaluation and dissemination of household data for monitoring and diagnosing poverty.

Partnerships and interactions with external agencies will be of critical importance to this approach to poverty analysis. Some activities have already begun, including interactions with the UN system—analytical work with the United Nations Development Programme (UNDP) and UNICEF's participation in the 20–20 Initiative—and with the Development Assistance Committee of the Organisation for Economic Co-operation and Development as part of the 21st Century Initiative. The Bank is also reviewing the impact of its structural adjustment programs with nongovernmental organizations (NGOs) and civil society under the Structural Adjustment Participation Review Initiative launched in July 1997.

Progress in Fiscal 1996 and 1997

Evaluation of the Bank's efforts to help governments reduce poverty must consider the totality of the Bank's program of assistance, including analytical work, policy dialogue, advice, and lending. The appropriate mix of lending—between macroeconomic and sector programs and between targeted and nontargeted lending—depends on the specific poverty problems within individual countries and on efforts being made by client countries and other donors. The review of the Bank's poverty reduction efforts in this report focuses on the Bank's poverty assessments, country assistance strategies, poverty-targeted lending, and poverty monitoring.

Poverty Assessments

Recent poverty analysis has improved our knowledge of country circumstances, providing the basis for well-informed dialogue and more effective interventions. Since the Bank introduced poverty assessment in fiscal 1989, 94 assessments (83 countries and 11 updates) have been prepared, covering approximately 90 percent of the world's poor. Of these, 22 were completed in fiscal 1996 (17 countries and 5 updates) and 10 in fiscal 1997 (8 countries and 2 updates). The plan is to complete the remaining 22 first-round assessments and 9 scheduled updates by fiscal 2000. Of these, 20 poverty assessments (15 countries and 5 updates) are scheduled for fiscal 1998. Many of the remaining first-round assessments are for new client countries in the Europe and Central Asia region, including countries of the former Soviet Union.

Though still varied in quality, increased data availability and stronger analyses have contributed to improvements in the quality of poverty assessments. Participatory methodologies involving interviews at the household and community levels have improved policy analyses and prescriptions by capturing the poor's perceptions about poverty. About half of the poverty assessments completed in both fiscal 1996 and 1997 used participatory methods, compared with only a few in the early 1990s. The impact of economywide policies on the poor, the design of effective poverty monitoring systems, and the gender dimensions of poverty require further attention in poverty assessments.

Future priorities for poverty analysis and strategy, as recommended by the Poverty Reduction Board, include strengthening the links between analysis and country strategy and action and ensuring that poverty analysis and action are at the core of the Bank's assistance strategies. Monitoring and diagnosis of poverty will continue to be central to all of the Bank's country assistance strategies. In addition, mechanisms for expanding capacity in client countries to monitor and analyze poverty will be strengthened.

Country Assistance Strategies

The Bank's country assistance strategies are the vehicle for ensuring that the findings of country poverty analysis make their way into the lending programs for individual countries. Since the May 1996 directive from senior management to put poverty

reduction at the center of the country assistance strategies, many of them have become distinctly more poverty focused, particularly those for Sub-Saharan African countries. Although the country assistance strategies prepared in fiscal 1996 and 1997 continued to improve in their treatment of poverty issues, coverage of some aspects remained less comprehensive than others.

While all of the fiscal 1996 and 1997 country assistance strategies discussed policies and reforms needed for growth, they did not all include an explicit analysis of how these policies would affect the poor. About half of the country assistance strategies in fiscal 1996 and a little over half in fiscal 1997 recommended specific actions for increasing the economic opportunities of the poor, such as labor-intensive public works, support for smallholder agriculture, land reform, microcredit schemes, and rehabilitation of rural infrastructure.

There were improvements in the extent to which the findings of poverty assessments were incorporated into country assistance strategies prepared in fiscal 1996 and 1997. All country assistance strategies preceded within a year or two by poverty assessments incorporated the main findings of the assessment—some more comprehensively than others. There is still scope for stronger linkages between poverty assessment findings and country assistance strategies to enable the country assistance strategies to play a pivotal role in the Bank's poverty reduction efforts.

The Poverty Reduction Board is initiating several actions to strengthen attention to poverty reduction in country assistance strategies. The principal objective is to develop country assistance strategies that are firmly grounded in analyses of the determinants of poverty, with the participation of the poor. The Poverty Reduction Board will be working with staff in the regions to help incorporate poverty concerns in country assistance strategies for a limited number of pilot countries, with about one per region in the next year. The Board will also advise the regional teams working on country assistance strategies, and best practice approaches will be shared across countries and regions.

Bankwide Lending

The Bank's fiscal 1996 and 1997 operations supported a broad range of activities to increase the productivity and economic opportunities of the poor, to develop human capital, and to provide safety nets. Because it is easier to measure poverty reduction efforts in programs specifically targeted to the poor, the Bank tracks lending for projects that are focused directly on the poor in its Program of Targeted Interventions (PTI) as well as adjustment operations that are focused on poverty reduction. Still, it is important to remember that it is the combination of the Bank's lending and nonlending activities that contributes to poverty reduction.

During fiscal 1997, approximately US$4.1 billion, or about 29 percent, of World Bank (IBRD and IDA) investment lending was for projects specifically targeting the poor, compared with US$5.4 billion, or 32 percent, in fiscal 1995 and 1996. For IDA countries, lending to PTI projects was 53 percent of investment lending in fiscal 1997, down from 63 percent in fiscal 1996, but about the same as in fiscal 1995. The unusually high level and share in fiscal 1996 were due to the greater number of large PTI loans (amounts over US$350 million) approved that year. In adjustment operations both the share of operations classified as poverty-focused and the amount of Bank lending for those operations increased steadily between fiscal 1995 and 1997. Poverty-focused operations increased from 52 percent of adjustment operations in fiscal 1995 to 59 percent in fiscal 1996 and 62 percent in fiscal 1997.

In future, more emphasis will be placed on assessing the actual impact of projects on the poor. Upcoming work will explore practical approaches for evaluating the impact of interventions on poor households. More use will be made of feedback in project work, to increase gains for the poor through the redesign of project components. A range of case studies will evaluate the impact of projects on poor households. A menu of approaches will be derived, based on alternative analytical methods.

Poverty Monitoring

Greater data availability has improved the Bank's understanding of the relationships between growth, inequality, and poverty reduction. Results from at least 16 surveys became available this year, two of them for countries where household data for estimating poverty were available for the first time. Within the Bank the regions have formulated plans for monitoring poverty in individual countries (see chapter 2). Differences across regions in the scope and depth of monitoring are a reflection of different country cir-

cumstances and priorities. Still, there is a need to improve the information base in many regions to better understand the impact of Bank projects on the lives of the poor.

The Poverty Reduction Board will be conducting a census of household survey data and developing regional and country information strategies covering the production and use of data on poverty. This work will also address the complementary use of traditional survey-based instruments and participatory approaches to monitoring poverty.

Despite recent progress, much remains to be done to establish effective and sustainable poverty monitoring systems in client countries. The Bank, in partnership with UNICEF and UNDP, has since May 1995 been working on a program to improve poverty monitoring methods. Among the program's activities is an ongoing exchange of views on approaches for monitoring the social outcomes of development, with the goal of developing a core monitoring instrument.

Social Assistance and Safety Net Programs

Social assistance and safety net programs can be important complements to the main poverty reduction strategy of broad-based growth and human development. In many countries the range of safety net programs and their associated fiscal costs remain a source of concern. Some countries are attempting to reform existing poverty-targeted programs in response to changing economic and political conditions. Others are introducing new programs.

A recent World Bank study of safety net programs confirms that appropriate program choice, program design, and delivery are key to reaching the poor successfully and efficiently (Subbarao and others 1996). Several lessons can be drawn from this overview of country and program experience. Many countries have followed a poverty reduction strategy of *universal* subsidies, but such transfers have almost always proved to be fiscally unsustainable and highly inefficient in reaching the poor. Some degree of targeting is required. But targeting can raise the costs of administering the program to governments, the transactions costs to recipients, and incentive costs to the economy. Targeting may also reduce political support for the program. Therefore, the extent and methods of targeting must be chosen with care. Five key lessons emerge from country experience:

- *Keeping the costs of participation low encourages the involvement of the poor.* Well-designed and delivered programs can reduce transactions costs (travel distance, number of visits required, and the like) and enhance outcomes for the poor.
- *Containing the costs of administering programs improves their sustainability.* In general, self-targeted approaches work well in reducing overall costs and in gaining political support. However, success in self-targeting requires information about the poor—for example, about their consumption behavior and their reservation wages. This information is gained only through careful analysis of household data and careful monitoring of the effects of the program.
- *Minimizing incentive costs holds down total costs and reduces distortions.* Incentive costs are often difficult to measure. Keeping transfers small and relying on programs that are self-selecting for the poor can minimize the incentive costs.
- *Targeting geographically can reduce costs when the poor are concentrated in particular regions.* However, fiscal decentralization poses a challenge to the targeting of programs in resource-poor regions. Some evidence suggests that the poor in these regions may not gain from decentralization if revenue assignment does not match new expenditure responsibilities. More analytical work is needed to address this issue. Fiscal decentralization schemes need to be implemented carefully to ensure that funding for poverty-focused programs is not crowded out.
- *Considering all costs is important in deciding among alternative programs.* When assessing the costs and benefits of transfer programs, and deciding on their design and delivery, it is important to consider all costs (administrative, transaction, and incentive costs) and to weigh them against potential benefits.

Chapter 1: The World Bank's Poverty Reduction Strategy and Future Directions

Poverty is multidimensional. No single measure adequately captures the many aspects of human deprivation. By all indicators and measures, however, tremendous progress has been made in reducing poverty in major parts of the developing world. In East Asia the absolute number of the poor fell from 719 million in 1975 to 346 million in 1995 (Ahuja and others 1997), and the incidence has declined dramatically as well. The incidence of poverty has also been on a downward trend in the Middle East and North Africa and in parts of South Asia. In India the incidence of poverty fell from 55 percent in the 1950s and 1960s to 35 percent in 1993–94. Throughout the world there has also been steady progress in living conditions, as evidenced by improvements in social indicators. Life expectancy rose from 59 years to 68 years in East Asia and from 36 years to 54 years in Africa between 1970 and 1993.

Despite the progress, major problems persist. Poverty remains the central challenge of development. Over a billion people still live on less than $1 a day (some 3 billion on less than $2 a day). In India, though the incidence of poverty has fallen, the absolute numbers of the poor continue to rise. In Eastern Europe and Central Asia both the incidence and the absolute numbers of the poor have increased. In Sub-Saharan Africa the incidence of poverty remains stubbornly high, with the people there remaining among the poorest in the world. And new sources of concern have arisen. In many countries, certain groups are socially excluded and benefit little from the overall growth process. In some the forces of technology have widened the economic distance between skilled workers and the rest. And in some countries regional pockets of extreme poverty persist. Clearly, much remains to be done.

The World Bank's Objectives and Strategy

The World Bank's fundamental objective is to help client countries reduce poverty and improve living standards through a strategy of inclusive development. The first element of this strategy, outlined in *World Development Report 1990*, involves policies to promote broad-based, labor-demanding growth and increase the productivity and economic opportunities of the poor. The second element incorporates policies and institutions to improve access to social services, particularly in basic education, primary health care, and nutrition. These are services that can improve living conditions and increase the capacity of the poor to respond to the income-earning opportunities arising from economic growth. The third element comprises safety nets and poverty-targeted programs for those who cannot take advantage of income-earning opportunities or who are heavily risk-prone.

Development experience has confirmed the soundness of this strategy: East Asia's extraordinary growth performance and its success in expanding access to social services exemplifies the potential of the strategy for poverty reduction (Ahuja and others 1997). But more needs to be learned about the actual workings of the strategy. What constitutes a labor-demanding growth strategy in the context of the ongoing globalization? How can countries continue to promote access of the poor to basic social services when complex institutional issues intervene, including the ongoing processes of decentralization? Inadequate understanding of behavioral responses of the poor to policies and programs further complicates efforts to expand access. Knowledge gaps persist in other ar-

eas. We need to know more about how a civil society functions and how cultural factors and ethnicity interact and affect poverty, how social exclusion sets limits for people's participation in development, and how barriers to such participation can be removed. Strategies for reducing poverty in countries emerging from conflict require careful thought and may involve difficult tradeoffs. Improving our understanding of such complex issues will require a greater reliance on participatory approaches to poverty analysis.

The Bank operationalizes its poverty reduction strategy through analytical work, policy dialogue, and lending aimed at supporting and complementing country efforts to reduce poverty (see World Bank 1991). The analysis of poverty in a given country helps to shape the Bank's policy dialogue and advice and its program of assistance (illustrated in figure 1). The Bank develops an assistance strategy for each member country that reflects the country's unique circumstances and needs and that considers efforts being made by the government, nongovernmental organizations (NGOs), and other donors. A May 1996 note to all managers and staff from the Managing Directors of Operations confirmed that "coherent poverty reduction strategies, building on the results of poverty assessments and other poverty analysis, need to underpin our country assistance strategies," to ensure that poverty concerns are fully integrated into country assistance strategies.

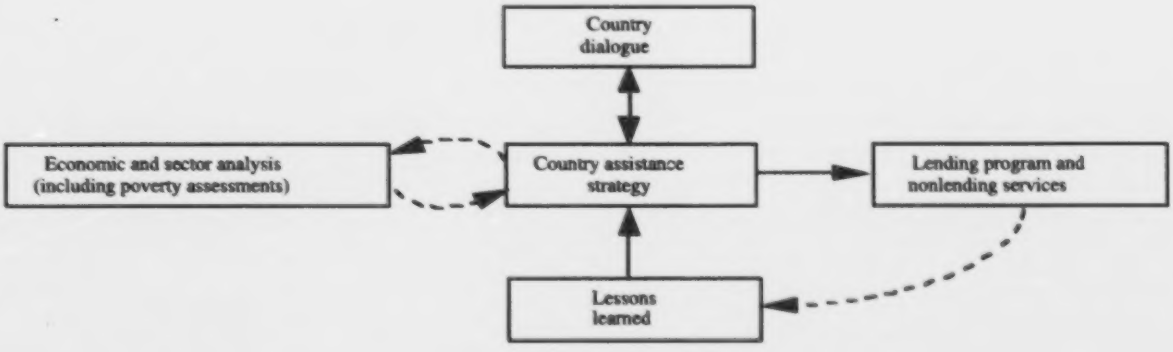
Of the Bank's variety of instruments for analytical work on poverty, poverty assessments are the most comprehensive and influential. Poverty assessments synthesize information on poverty from various sources, identify key issues, and recommend a strategy for reducing poverty. They are also instrumental in establishing baseline poverty profiles for member countries. Poverty assessments have been completed for 83 of 105 countries (covering approximately 90 percent of the world's poor), making the Bank the world's largest repository of information on poverty.

With the first round of assessments nearly completed, the Bank has given thought to future priorities for poverty analysis and strategy. A workshop of operational staff, managers, and technical experts was held on March 18, 1997, to discuss the Bank's experience with poverty analysis, both its effectiveness and its future direction. The intention was to raise issues, discuss them from several regional and sectoral perspectives, and get a sense of the areas in which the Bank may want to reevaluate or modify its approach. The issues raised at this workshop were also intended to provide a starting point for discussion at the Poverty Reduction Board within the recently formed Poverty Reduction and Economic Management Network.

The workshop noted that:

- We know more now than we have ever known about poverty in general and in specific countries and circumstances.
- Data availability has improved greatly, in large measure an outcome of the poverty assessments.
- These data enable us to test empirically the many claims about how poverty and inequality are changing over time.
- Undertaking the assessments has raised Bank and

Figure 1. Approach and instruments in the World Bank's poverty reduction strategy



client awareness of poverty issues.
- The assessments have generally been an important international public good.

The workshop also identified weaknesses in the Bank's approach to poverty work:
- The quality of the data are uneven, and integration of different data sources is weak.
- The analysis varies in quality and is often particularly weak on macroeconomic policies and poverty.
- Many poverty assessments took too long and cost too much.
- Poverty assessments did not always guide operational strategies and action.
- Domestic institutional capacities for monitoring and analysis remain weak in many cases.
- Evaluation and feedback need to be strengthened.

Among the recommendations of the workshop:
- The mode of analysis should shift after the first round of poverty assessments is complete.
- The links to country strategy and action should be strengthened.
- Poverty analysis and action should be at the core of Bank assistance strategies.
- The capacity in client countries to monitor and analyze poverty needs to be strengthened.

Future of Poverty Analysis, Strategy, and Action

The main elements of a future work program of the Poverty Reduction Board emerged from this Bankwide workshop. One goal drives this effort: to ensure that the World Bank makes the greatest contribution it can to reducing poverty in the developing world. Realizing this goal requires progress in two areas:

- A shift from *describing* poverty to *formulating strategies* for reducing poverty. The Executive Board has already initiated Bankwide action in a number of areas to accomplish this shift. Much of this work will be linked to operational strategies in individual countries. Some of it will be background work in preparation for *World Development Report 2000* on poverty.
- A shift from *counting* poverty-focused projects to *assessing their impact* on the poor. So far, assessment of impact has been largely in terms of *inputs* (lending amount, number of projects) rather than *outcomes* for the poor. The Bank is moving toward better evaluation of the impact of lending and projects on household welfare.

The proposed work program outlined below reflects these shifts in the Bank's approach to poverty analysis, strategy, and action. This work—analytical, project-related, and training—will be undertaken in partnership with the regions, sectoral specialists, research staff, and the Economic Development Institute (EDI).

Focusing on poverty reduction in country assistance strategies. The principal objective is to develop country assistance strategies that are firmly grounded in analyses of the determinants of poverty, with the participation of the poor. Future work, largely demand-driven, will focus on a relatively limited number of country assistance processes to explore in-depth how to incorporate a concern for poverty. The Poverty Group will interact closely with the regional teams working on country assistance strategies, and best practice approaches will be shared between countries and regions.

Strengthening the economic and institutional basis for delivering services and transfers to the poor. The objective is to better understand how public policy can enable the poor to expand their capabilities and manage risks and how the Bank can implement new approaches in this direction. Work will involve the synthesis of studies of public spending and the poor; new work on economic and social services, capabilities, and risk management and on the impacts of infrastructure choices and the poor; and an ongoing evaluation of the impact of social funds. Staff training on safety nets, health and poverty, and decentralization will be used to improve the pro-poor orientation of programs and projects.

Identifying patterns of international and domestic development and the poor. To deepen our understanding of the links between patterns of development and poverty reduction, work is proposed in a number of interrelated areas: participation in the Structural Adjustment Participatory Review Initiative (SAPRI) on international trade and poverty; new work on urban poverty, regulation, and employment and on dimensions of inequality and options for effective redistribution; and synthesis of ongoing work on geography and poor areas. Two workshops are

planned with the Africa Region on labor, poverty, and economic development and on the dynamics of poverty in Africa.

Improving understanding of social development and poverty. To develop the institutional capacity to handle many social development issues, a better understanding is needed of the links between poverty and social capital, social exclusion, gender, and violence, as well as the special circumstances of poverty in post-conflict regions. New work on gender and poverty is planned, and issues of violence and social exclusion will be explored. Post-conflict situations will be analyzed with a focus on policy and institutional choices for the poor.

Preparing for World Development Report 2000. A program of analytical work and a broad consultative process will be developed as a buildup to the *World Development Report* on poverty. This work will include development of a research program, initiation of a consultative process with the broader development community, and organization of a series of workshops linking regional researchers, policymakers, and civil society. To help ensure that the poor are heard in this process, participatory approaches will be used.

Evaluating the impact on poor households of specific policies and investments. Practical approaches are needed for evaluating the impact of interventions on poor households while controlling for general patterns of change. More feedback will be elicited in project work, with a view to redesigning project components to increase gains for the poor. Case studies will evaluate the impact of projects on poverty at the household level. A menu of alternative analytical approaches will be developed, along with a position paper on approaches to ensure full management support and guidance to operations.

Collecting and analyzing household data on poverty. To strengthen in-country capacity to generate and use data for monitoring and diagnosing poverty and to make data and analysis easily available, a census of existing surveys will be conducted, data archiving improved, best practices in data generation documented, regional information strategies formulated, and new tools of analysis and software will be developed.

Knowledge Management

The management of global knowledge on poverty is one of the key roles of the Bank's newly formed Poverty Reduction Board. The medium-term objective is to share and exchange knowledge outside the Bank, in addition to helping task managers and staff within the Bank. It will be governed by the following two principles:

- Knowledge must be operationally relevant and must guide the design of both lending and nonlending instruments.
- Knowledge must be certified or validated if it is to be useful.

Systems of knowledge management and sharing will be initiated in 1998 covering social services and transfers (safety nets) to the poor and the evaluation and dissemination of household data for monitoring and diagnosing poverty. The effort will be to document best practices and to develop regional information strategies so that information critical for poverty reduction efforts is easily and cost-effectively available within and outside the Bank.

The Poverty Reduction Board will establish links with the knowledge centers of the Bank's other networks and EDI, emphasizing cross-cutting issues in poverty reduction while avoiding information duplication and overload. The Poverty Reduction Board will also prepare and update a roster of experts.

Internal and External Training

Poverty reduction does not encompass an independent set of activities. It is an underlying aspect of the Bank's overall lending, and as such it should be integral to all the Bank's work. The experience and expertise of staff, which are vital to the success of the Bank's efforts to reduce poverty, can be augmented through appropriate training. Training courses on household surveys, the economics of poverty, and the advanced analysis of poverty will be revised to incorporate new developments in methodology and data sources. Both current and new training proposals will focus on enhancing the poverty focus of the Bank's main activities, including the links between poverty and country assistance strategies, health, economic growth, labor markets, and public spending on social services and safety nets. Training will also explore decentralization and poverty, quantitative and qualitative approaches to poverty analysis, social exclusion, and post-conflict situations and the poor in Africa.

Promoting information sharing and participation within the Bank (between networks, the Development Research Group, and EDI) and with outside

experts on cross-cutting issues related to poverty reduction will have a high priority.

External Partnerships

Partnerships with all agencies concerned with poverty reduction will be vitally important in achieving the goals of the Bank's poverty reduction strategy. The Poverty Reduction Board will be the Bank's formal point of contact on poverty issues with all external partners, including UN agencies, regional banks, NGOs, bilateral donors, foundations, and other research institutions in all member countries. Some activity has already begun, including interaction with the UN system—analytical work with the United Nations Development Programme and UNICEF's participation in the 20-20 Initiative—and with the Development Assistance Committee of the Organization for Economic Co-operation and Development as part of the 21st Century Initiative.

Chapter 2: Progress in Fiscal 1996 and 1997

This chapter reviews the Bank's progress in fiscal 1996 and 1997 on its overall objective of poverty reduction. It is not intended as an in-depth treatment of poverty issues, but rather as an update of the more comprehensive fiscal 1995 report, *Poverty Reduction and the World Bank: Progress and Challenges in the 1990s*. The analysis does not reflect the new direction of poverty analysis outlined in chapter 1, although some new initiatives were already under way during fiscal 1997.

Evaluation of the Bank's efforts to help governments reduce poverty must consider the totality of the Bank's program of assistance, including analytical work, policy dialogue, advice, and lending. The appropriate mix of lending—between macroeconomic and sectoral programs and between targeted and nontargeted lending—depends on the specific poverty-related concerns of individual countries and on the efforts being made by client governments and other donors. This chapter assesses progress in the preparation and quality of poverty assessments and country assistance strategies, reviews the Bank's poverty-targeted lending, and recommends areas for further attention in the Bank's poverty reduction efforts. Recent developments in the Bank's work on participation, gender, and poverty monitoring are also discussed.

Poverty Assessments

The Bank conducts its analytical work on poverty through a wide variety of instruments, including public expenditure reviews, country economic memorandums, sector analyses, research papers, and poverty assessments. Poverty assessments synthesize information on poverty from many sources, identify key issues, and recommend a strategy for reducing poverty. Since the Bank introduced poverty assessments in fiscal 1989, 94 assessments (83 countries and 11 updates) have been done, covering approximately 90 percent of the world's poor (table below). Of these, 22 were completed in fiscal 1996 (17 countries and 5 updates) and 10 in fiscal 1997 (8 countries and 2 updates). (Annex A presents a detailed discussion of all fiscal 1996 and 1997 poverty assessments and their summaries.)

A May 1996 note to staff from management reaffirmed the Bank's commitment to complete initial poverty assessments and undertake follow-up assessments as appropriate. The plan is to complete the remaining 22 first-round assessments and 9 scheduled updates by fiscal 2000. Of these, 20 poverty assessments (15 countries and 5 updates) are scheduled for fiscal 1998. Many of the remaining first-round assessments are for client countries in the Europe and Central Asia (ECA) region, including countries of the former Soviet Union. (The timetable for completing and updating poverty assessments is provided in annex B.)

Previous annual progress reports on poverty and other related reports, including the Operations Evaluations Department (OED) report (World Bank 1997a), noted variations in the quality of poverty assessments. This finding is true of poverty assess-

Table 1: Completed and scheduled poverty assessments, fiscal 1989–2000

Completed poverty assessments				*Scheduled poverty assessments*			*Total*
1989–95	1996	1997	1989–97	1998	1999–2000	1998–2000	1989–2000
62	22	10	94	20	11	31	125

ments completed in fiscal 1996 and 1997 as well. Although most assessments discussed the impact of macroeconomic and sector policies on the poor, many did not follow up with recommendations for improving specific economic policy interventions, either by enhancing their positive effects or by minimizing their potential negative effects on the poor. Proposed poverty strategies usually focused on human capital development and agricultural policies.

There are indications of overall improvement in some aspects of poverty assessments. Poverty profiles are generally more thoroughly prepared, resulting from increased availability of data and better data analysis. Over three-quarters of the poverty profiles included two or more poverty lines to distinguish between the poor and the extremely poor and the urban and rural poor and among geographic regions. About three-quarters of the poverty profiles in fiscal 1997 and about half of those in fiscal 1996 constructed three commonly used indexes for measuring poverty (the headcount index, the poverty gap index, and the weighted poverty gap index), making it possible to present a richer picture of the incidence, depth, and severity of poverty. Other dimensions of poverty, notably education and health indicators, supplemented the poverty profile in the majority of the assessments.

There was also a greater use of participatory methodologies in conducting recent poverty assessments. About half of the poverty assessments completed in the last two fiscal years used qualitative, participatory methods to supplement household survey data. These methods incorporate the community's own diagnosis of its constraints and needs, encourage government ownership, and involve local NGOs in the assessment. Consequently, the poverty assessments demonstrate a greater depth of understanding of the issues and of community-specific nuances. In many cases, this has helped to improve policy analysis and prescriptions. For example, the Madagascar participatory assessment drew attention to security concerns that might otherwise have gone unnoticed by policymakers. Interviews covering some 2,500 households revealed that armed gangs threatened security at schools by pilfering materials, equipment, and furniture, and on farms by stealing crops and livestock, hurting school attendance and agricultural productivity. Subjective assessments and subjective participatory methods are complements to traditional household survey techniques, not substitutes.

Some poverty assessments (Ecuador, Tanzania, and Yemen in fiscal 1996 and Azerbaijan and Côte d'Ivoire in fiscal 1997) stand out for their in-depth analyses of poverty and concrete action plans for reducing poverty. The Tanzania assessment, which relied heavily on the findings of a participatory survey, addressed all the elements of the Bank's poverty reduction strategy in its recommendations: pro-poor growth policies that give top priority to raising the productivity and incomes of small farmers; human capital development initiatives that emphasize allocating more resources for basic health care, primary and secondary education, and safe drinking water; and targeted programs that include labor-intensive infrastructure projects and income-generating programs that would not crowd out the extensive informal safety net. Similarly, the Yemen assessment analyzes the short- and medium-term implications of economic policies for the poor and recommends specific improvements in line with the needs of the poor.

The comprehensive treatment of issues in the Ecuador poverty assessment reflects an ability to supplement conventional data with findings from two qualitative studies that present the views and preferences of the poor. The report examines the effect of labor market regulations on employment and growth. It also contains a good analysis of gender issues and recommendations for improving school attendance of teenage girls and for providing child care and security measures (street lighting, guarded public buses). The Azerbaijan poverty assessment proposes a major restructuring of the economy to overcome the recent decline in output and to address structural rigidities in agriculture and industry. Proposals include accelerating privatization of small and medium-size enterprises, expanding light industry to generate employment, and providing inputs (including credit), marketing arrangements, and price incentives to boost agricultural productivity. The poverty assessment for Côte d'Ivoire, which used participatory surveys, also presents a short-term growth strategy that ensures that the poor are not left behind. The assessment contains a clear recognition of gender constraints and specific recommendations for addressing some key concerns. The assessment stresses the importance of government commitment and partnership with NGOs, donors, and communities in the implementation of programs.

Country Assistance Strategies

The country assistance strategy is prepared in consultation with the governments of client countries to address the key developmental challenges their countries face. It builds on existing analytical work, including poverty assessments, country economic memorandums, sector reports, and other nonlending tasks. Ideally, it describes the poverty situation, assesses progress in reducing poverty, and proposes a strategy for poverty reduction. It also lays out an information strategy for developing and analyzing data on the poor and an evaluation strategy for assessing the impact of the overall strategy and specific initiatives. Each country assistance strategy is expected to reflect a country's unique circumstances and priorities, since the level and extent of poverty varies across countries.

Preparation

As part of an ongoing effort to build stronger partnerships, recent country assistance strategies are being designed in close consultation with a broad array of partners. Preparation of the fiscal 1996 assistance strategies for Bangladesh, Cameroon, Malawi, the Philippines, and Vietnam involved extensive consultations, including formal meetings and workshops, with a wide cross-section of society. Many of the fiscal 1997 country assistance strategies documented some level of participation; those for Burkina Faso, Egypt, El Salvador, Poland, and Uganda involved extensive consultations. The assistance strategy for Poland, for example, was prepared with the benefit of consultations with the Polish government and other stakeholders, including political parties, unions, business communities, academia, journalists, and NGOs representing the interests of the poor.

Government Commitment to Poverty Reduction

Government and other stakeholders must be strongly committed to achieving poverty reduction if such efforts are to succeed and endure. The fiscal 1996 country assistance strategies for Bangladesh and Mozambique and the fiscal 1997 strategies for Madagascar and Romania clearly state that poverty reduction is a central development goal of the government. Recently launched poverty and social action programs from the fiscal 1996 country assistance strategies for Mongolia, Pakistan, and the Philippines, and the National Poverty Reduction Program described in the fiscal 1997 country assistance strategy for China, also signal government commitment to poverty reduction.

The capacity to implement development programs is as important as government commitment. In fiscal 1996 and 1997, the Bank helped strengthen the capacity of public institutions in many ways. To help Chad deliver key services to its population, the Bank supported a capacity-building project to provide training and equipment to key public finance and economic management agencies. The fiscal 1997 country assistance strategy for Madagascar includes a Public Sector Capacity Building Project that takes a comprehensive approach to institutional strengthening. The project will help build capacity for designing and implementing economic policies, allocating public resources efficiently, reducing corruption, establishing a strong judiciary, developing an efficient and well-paid civil service, and forging a strong partnership between the public and private sectors.

Coverage

Twenty-four country assistance strategies (excluding 9 progress reports) were discussed at Board meetings in fiscal 1996, and 28 (excluding 5 progress reports) were discussed in fiscal 1997.[3] There were noticeable improvements in the country assistance strategies prepared in both fiscal years compared with previous years. The extent to which poverty was incorporated into assistance strategy objectives varied. In some cases the links between the diagnosis of problems in the country and the proposed strategy were clear. In others the proposed strategy did not adequately address the problems identified in the poverty profile, and in some the logic behind the strategy was unclear because constraints to economic and social progress were poorly identified. The country assistance strategies prepared for Sub-Saharan African countries showed significant improvements in the treatment of poverty issues.

All of the fiscal 1996 and 1997 country assistance strategies discussed proposed policies and reforms needed for growth, but not all included an explicit analysis of how the policies would affect the poor. As in fiscal 1995 about half of the fiscal 1996 country assistance strategies and a little more than half of the fiscal 1997 assistance strategies explicitly supported measures to increase economic opportunities for the poor, such as labor-intensive public works,

support for smallholder agriculture, land reform, microcredit schemes, and rehabilitation of rural infrastructure. Nearly all of the fiscal 1996 and 1997 assistance strategies adequately discussed strategies for improving the poor's access to health care and basic education. About half proposed safety net measures for the poor and other vulnerable groups. In countries where safety nets are not a priority because of financial constraints or the existence of strong informal safety net mechanisms, such reasons should still be clearly stated in the country assistance strategy.

Most fiscal 1996 and 1997 country assistance strategies referred to gender issues, though they varied considerably in how thoroughly key gender constraints and actions were discussed. Most of the assistance strategies discussed women's status and their role in society, but many failed to address the economic and social consequences of the constraints they face. Some assistance strategies incorporated gender objectives as an integral part of the assistance strategy and followed up with specific recommendations for improving the well-being of girls and women at the project level (box 1). To improve the tools available to staff for conducting gender analyses, guidelines are being prepared by the Gender Group in the Poverty Reduction and Economic Management Network for staff on integrating gender into the country assistance strategy, supported by a comprehensive learning process encompassing seminars, workshops, and an advisory service for task managers.

Links between Poverty Assessments and Country Assistance Strategies

The fiscal 1996 and 1997 country assistance strategies can be classified into three groups: those preceded by a poverty assessment, those prepared at the same time (same year) as the poverty assessment, and those prepared without a corresponding poverty assessment.

Country assistance strategies preceded by poverty assessments. One of the most important findings of the OED review of poverty assessments up to December 1994 was that their influence on country assistance strategies had been modest (World Bank 1997a). Since then country assistance strategies have come to rely more closely on the analysis and recommendations of poverty assessments. In fiscal 1996 and 1997 all country assistance strategies preceded within a year or two by a poverty assessment incorporated the assessment's main findings in the formulation of assistance strategies. Where poverty assessments had been completed five to six years earlier (Bangladesh, Mozambique, and Nepal in fiscal 1996, and Egypt, Mexico, and Venezuela in fiscal 1997), strategies to reduce poverty were based on the analysis of more recent economic and sector work.[4]

Assessing the links between poverty assessments and country assistance strategies can be difficult, since it is not always clear whether the lack of coherence between the recommendations of a poverty assessment and a proposed country strategy is due to oversight or a deliberate prioritization of issues and actions.[5] Linkages are clearer in cases in which poverty assessments have been completed within a year or so before the country assistance strategy.

The fiscal 1996 country assistance strategies for Lesotho, Malawi, Pakistan, and Vietnam relied heavily on recommendations of the poverty assessments, and the strategies were clearly focused on poverty reduction. In fiscal 1997 strong linkages were also evident for Brazil and Guinea Bissau. The Pakistan country assistance strategy had a box highlighting its linkages with the poverty assessment. The

Box 1. Incorporating gender concerns into country assistance strategies

Support for government and NGO efforts to expand opportunities for women is central to IDA's strategy for Bangladesh. Under a Poverty Alleviation Project (fiscal 1997), IDA will support microcredit programs of NGOs working with the poor, especially with women. With support from IDA the government is also making a massive effort to bring more girls into schools. The country assistance strategy for Nepal documents social and legal discrimination against women who, for example, cannot inherit land. IDA will seek to upgrade the status of women through lending operations based on an analysis of gender-specific data collected by the Nepal Living Standards Survey. In China a proposed labor market study (fiscal 1998) will explore the impact of labor market reforms on women's employment prospects and work conditions. Other cases in which gender-specific actions are integral to the proposed strategy include the fiscal 1996 country assistance strategies for Malawi, Pakistan, and Vietnam, and the fiscal 1997 assistance strategies for Egypt, El Salvador, and Romania.

Brazil country assistance strategy included an annex describing poverty conditions in the country and summarizing the main recommendations of the poverty assessment. The country assistance strategy for Lesotho presented excellent documentation of the poverty profile, including graphs of essential factors on poverty. Recommendations of the poverty assessment that would have a high impact on poverty in both the short and medium term were included in an annex. The country assistance strategy for Malawi is an example of best practice in incorporating poverty reduction into assistance strategy objectives. Preparation involved extensive consultations with a wide array of groups (box 2). In addition to a discussion of the more common themes concerning human capital development, the country assistance strategy specifically documented the impact of macroeconomic and sectoral policies on the poor, and proposed development programs that were pro-poor.

Country assistance strategies prepared simultaneously with poverty assessments. The country assistance strategies for Eritrea, Mongolia, and Yemen in fiscal 1996 and those for Azerbaijan, the Republic of the Congo, and Romania in fiscal 1997 were prepared during the same fiscal year as their poverty assessments but were completed before the poverty assessments. The assistance strategies proposed for all six countries are consistent with the main recommendations of their poverty assessments, pointing to close collaboration between Bank staff working on the two documents. For example, although the country assistance strategy for Eritrea was completed four months before the poverty assessment, preliminary findings from the poverty assessment were incorporated in the country assistance strategy's documentation of the depth and extent of poverty in Eritrea. Similarly, the country assistance strategy for Azerbaijan included a box describing the main findings and recommendations of the poverty assessment. And both the country assistance strategy and the poverty assessment for Mongolia identify as their principal objective protecting vulnerable groups while stabilizing the economy and accelerating the transition to a market economy.

Country assistance strategies prepared without completed poverty assessments. The absence of a poverty

Box 2. Analysis helps to design country assistance strategies aimed at reducing poverty: A pro-poor growth strategy for Malawi

According to the recent poverty assessment for Malawi, poverty is most severe in rural areas, where 94 percent of the poor live.[1] The poverty gap (the percentage shortfall in expenditures of households below the poverty line) for rural areas is about two and a half times larger than in urban areas. The magnitude and severity of poverty in Malawi call for broad reforms, including deregulation of the economy, lowering of transactions costs for small producers (by liberalizing markets), reexamination of land policies, and reorientation of public spending. The poverty assessment notes that current efforts to liberalize the economy do not go far enough in removing constraints faced by smallholders. Past regulations restricted prices, production, and entry in key sectors; blocked markets; and protected the economic power and profits of large firms and estates. Thus, further deregulation of production and marketing and of agricultural input markets, higher investment in rural infrastructure, deregulation of transport services, and reform of land policies are essential for significant poverty reduction.

The emphasis of the Bank's strategy on fostering private sector development and promoting growth in agriculture and rural areas reflects the findings of the poverty assessment. The Fiscal Restructuring and Deregulation Adjustment Credit presented along with the country assistance strategy supports a number of agricultural policy reforms, including deregulation of crops, markets, and inputs and review of land policy. It is planned that the government's 1995 agricultural strategy and action plan would be further assisted by the Agricultural and Livestock Sector Investment Project (fiscal 1998), which covers policy and institutional reforms, rural infrastructure, and agricultural services. The key analytical piece to underpin work in the rural sector will be an informal study on rural employment and labor markets and enterprises (fiscal 1997). The findings will contribute to a growth options study (fiscal 1997), which will provide the basis for a Private Sector Development Project (fiscal 1998) to finance micro and small and medium-size enterprises, business support services, and export development, which will focus on women entrepreneurs.

In preparing the Malawi country assistance strategy, the Bank organized a series of meetings with 120 stakeholders organized into nine groups. The meetings were based on a set of specific questions to elicit views on priorities for the country, priorities within various sectors, priorities for achieving poverty reduction, and suggestions for a more responsive Bank.

[1] This box is drawn from "Malawi: Human Resources and Poverty—Profile and Priorities for Action" (1996) and the Malawi Country Assistance Strategy (1996).

assessment does not necessarily lead to a country assistance strategy that lacks a poverty focus. In many cases, the country assistance strategy was able to build on other sources (country economic memorandums, sector studies, and public expenditure reviews) to formulate a pro-poor assistance strategy. And in countries where work had started on poverty assessments, preliminary findings were also used. The fiscal 1996 Algeria country assistance strategy drew on a recent agricultural sector review, a new country economic memorandum, and information on a broad-based safety-net program, as well as on preliminary estimates of the upcoming poverty assessment, to define a strategy focusing on stimulating private sector-led employment and strengthening safety net programs for the poor. The fiscal 1997 country assistance strategy for Burkina Faso was able to reflect a good understanding of poverty in the country drawn from the poverty profile prepared by the National Institute for Statistics and Demography.

But in other cases the absence of a completed poverty assessment meant that the country assistance strategy lacked an adequate description of the poor. The fiscal 1996 Chad country assistance strategy had no documentation of the poverty profile. For new member countries, such as countries of the former Soviet Union, for which information on poverty is just being collected, assistance strategies are prepared despite limited knowledge in order to allow lending to get under way. Understandably, poverty-focused analysis is necessarily less comprehensive in this set of countries. The fiscal 1997 Turkmenistan country assistance strategy clearly acknowledges the lack of data on poverty and gender. To address this lack of data, the Bank's assistance strategy includes a planned Living Standards Measurement Survey, which should significantly increase the understanding of current social development issues and dimensions of gender differentiation.

Poverty Impact of Bank Operations

The Bank's operations support a wide range of activities designed to increase the productivity and economic opportunities of the poor, develop human capital, and provide safety nets for the poor, with the ultimate goal of improving their lives. While all Bank-financed projects need to be consistent with the poverty reduction strategy outlined in the *World Development Report 1990*, each project does not need to have an explicit poverty reduction component (see 1992 *Operational Directive 4.15: Poverty Reduction*). Measuring the impact on poverty of all Bank-financed activities (including lending, policy advice, research, and economic and sector work) is difficult, and the results are necessarily imperfect. For this reason the Bank relies on a variety of measures of impact to evaluate the effectiveness and appropriateness of its interventions. Because tangible results are easier to gauge for projects than for other forms of Bank assistance, they will receive more attention here. Performance indicators, which are defined to reflect the means, the process, and the ends in achieving poverty reduction objectives, are used in monitoring project performance and have yielded useful information on the effectiveness of Bank projects. Box 3 illustrates some of the performance indicators used to monitor progress in Bank projects.

Despite their general usefulness, however, performance indicators do not usually measure the impact of a project on poverty—they measure progress relative to objectives and not impact relative to what would have happened in the absence of the project. Future poverty monitoring should build on past experiences in developing better indicators and should emphasize the actual impact of Bank lending on the welfare of the poor. To start, more information is needed on how Bank projects have influenced the lives of the poor. Carefully designed household surveys offer the best opportunity for generating this kind of information. The Bank could then use this information to develop tools for assessing which projects have the most impact on the poor (and therefore merit replication) and for measuring the true poverty-reducing impact of Bank lending.

In addition to this focus on impact at the project level, the Bank will continue its efforts to track poverty trends in client countries. The Poverty Reduction Board will be conducting a census of household survey data and will develop regional and country-specific information strategies covering the production and use of data on poverty.

Although all lending should benefit the poor, either directly or indirectly, some projects are designed to have particularly strong benefits for the poor. The Bank tracks its lending for projects in the Program of Targeted Interventions (PTI) and for poverty-focused adjustment operations using established criteria in targeting the poor.[6] During fiscal 1997 approximately US$4.1 billion, or about 29 percent, of World Bank investment lending, was channeled to projects specifically targeting the poor, compared with US$5.4 billion, or 32 percent, in fiscal 1995 and

Box 3. Impact of Bank-assisted projects on poverty

Bolivia: Second Social Investment Fund (IDA US$40 million, fiscal 1993)

Objectives with demonstrated impact. This project demonstrates how social funds can be used effectively for implementing decentralization by assisting local authorities and communities in managing investment resources, as well as for building and maintaining social infrastructure. The project also shows that community outreach programs and infrastructure campaigns are essential to ensure the effective and sustained use of social services in rural communities. This project supports the second phase of the government's Fondo de Inversion Social (FIS) program and aims to reduce poverty by improving the coverage and quality of basic health and education services. Social sector investments are targeted to the neediest communities, and participation of beneficiaries in identifying and managing subprojects makes project activities more relevant and sustainable.

Outcomes and impact assessments. The FIS program reached 3.5–4 million people. Communities are actively participating in subproject formulation and construction, and the maintenance of facilities has improved. Health facilities have been built, refurbished, and equipped. Rural water supply systems were installed, and more people now have access to clean water. FIS health centers have experienced a significant (80 percent) increase in consultations compared with the preproject situation. A beneficiary assessment in 1995 revealed a preference for FIS centers because of better facilities and equipment. Beneficiaries observed that the number of severe diseases among children treated at FIS clinics has decreased. Vaccinations and birth control dissemination have increased in FIS health centers as well. Schools were also rehabilitated and equipped, and teaching performance and school attendance have improved. An impact evaluation with structured controls is under way and will allow a thorough analysis of impacts on the poor.

China: Loess Plateau Watershed Rehabilitation Project (IDA US$150 million, fiscal 1994)

Objectives with demonstrated impact. The primary objective of the project is to increase agricultural production and the incomes of 1.2 million people in the Loess Plateau by creating sustainable crop production on high-yielding level farmland to replace farming on sloping lands susceptible to erosion, and by developing terraces, small-scale irrigation, pasture, fruit and nut orchards, and sediment control dams.

Outcomes and impact assessments. In two years the project has substantially increased agricultural production and improved the lives of tens of thousands of project beneficiaries. Land treatment has been completed on approximately 167,017 hectares, including terraces, irrigation, grasslands development, and orchards. The project was able to deliver tangible benefits to households very quickly. Terracing and land warping (creation of land behind silt-retention structures) components resulted almost immediately in significant yield increases compared with adjoining slope lands. Maize yields are typically 2–3 times higher on terraces and as high as 4–5 times in some locations after only one year.

A baseline survey was conducted to assess impact on beneficiaries' incomes. Additional questionnaires are being sent out to supplement the survey information.

Ghana: Community Water and Sanitation Project (IDA US$22 million, fiscal 1994)

Objectives with demonstrated impact. The objectives of the project are to provide water and sanitation facilities to rural communities; to ensure sustainability of these facilities through community management (including involvement of women, private sector provision of goods and services, and public sector promotion and support); and to maximize health benefits through the integration of water, sanitation, and hygiene education interventions.

Outcomes and impact assessments. Access to safe water supply has been improved in about 200 rural communities through the construction and rehabilitation of hand-dug wells and boreholes during the first two years of the project. The quality of life has improved in these communities as a result of easier access to good quality water. Communities are chosen for participation in the project based on demand as well as poverty level. Approximately 800 household latrines have been constructed. Rural communities have benefited from training by local NGOs in planning and managing their water supply and sanitation systems, and hygiene education has been integrated in this process.

The project has emphasized institution building and training. Government now fully supports community management of water facilities. Twenty district-based NGOs and three national NGOs work with rural communities to facilitate collective decisionmaking, and communities have participated in the formulation of management plans. One-third of NGO members are women, and their role as managers of water supply facilities is considered essential to sustainability. To encourage competitiveness, borehole contracts are now being packaged in smaller lots by region. Procurement arrangements for the supply, distribution, installation, warranty, and repair services for handpumps through local distributors are now in place. By the fourth year of implementation, there should be capacity to construct up to 500 water points and 3,000 household latrines per year.

1996. For International Development Association (IDA) countries, lending to projects in the PTI accounted for 53 percent of fiscal 1997 investments, down from 63 percent in fiscal 1996, but about the same as in fiscal 1995. The unusually high level and share in fiscal 1996 was due to the greater number of large poverty-targeted loans (in amounts over US$350 million) approved that year. The bulk of poverty-targeted lending tracked in the Program of Targeted Intervention was in four sectors: agriculture; population, health, and nutrition; education; and the social sector (see annex D).

The Bank has been monitoring PTI projects for six years. In that period the Bank has supported projects totaling US$63.7 billion, to which it contributed loans worth US$27.9 billion (see table D-1 in Annex D). Overall, PTI projects in the Bank's active portfolio in fiscal 1996 and 1997 are performing better than non-PTI projects in terms of their likelihood of achieving their development objectives and in their implementation progress.[7] However, there is little difference between the groups in the proportion of projects assessed to be "at risk" on the basis of the new "projects at risk" criteria used for identifying potential problem projects.[8]

Some adjustment operations (operations that support macroeconomic and sectoral policies that promote growth and efficient resource allocation) contain specific poverty reduction measures. They are referred to as poverty-focused operations. Both the share of operations classified as poverty-focused and the total amount of Bank lending for poverty-focused operations increased steadily between fiscal 1995 and 1997. Poverty-focused operations increased from 52 percent of all adjustment operations (14 of 27) in fiscal 1995 to 59 percent (17 of 29) in fiscal 1996 and 62 percent (18 of 29) in fiscal 1997. Similarly, funds going to poverty-focused operations rose from US$1.65 billion in fiscal 1995 to US$2.23 billion in fiscal 1996 and US$2.65 billion in fiscal 1997. For IDA countries the volume of poverty-focused adjustment lending fluctuated during this period (US$598 million in fiscal 1995, US$1.03 billion in fiscal 1996, and US$689 million in fiscal 1997), but the share of poverty-focused lending in total IDA adjustment lending increased from 56 to 61 to 73 percent (see annex E).

Other Operational Activities in Fiscal 1996 and 1997

Participation

Participatory methods can improve the design and implementation of a project, particularly when there

Box 4. How participatory approaches can improve project implementation

As the Bank's learning about participation begins to take hold, there is growing interest in assessing the actual impact of participatory activities in Bank operations. Projects are increasingly incorporating quantitative and qualitative indicators to measure the involvement and influence of affected stakeholders. The IDA-funded Social Recovery Project (fiscal 1991) in Zambia illustrates how participatory mechanisms can improve project implementation to better ensure that the needs of the poor are met.

The Social Recovery Project was designed to mitigate the negative effects of the economic crisis on the poor by funding community initiatives for rehabilitating infrastructure and service delivery. A system of regular stakeholder consultations influenced the design and implementation of the project and of community-based microprojects. Beneficiary assessments were conducted in 1992, 1993, and 1994 to assess the socioeconomic conditions of the beneficiaries, address community participation issues, assess the impact of the completed microprojects, and identify community needs and priorities. A combination of quantitative and qualitative surveys (individual interviews, focus group discussions, participatory rural appraisals) identified several issues hindering project effectiveness at the community level. These included limited transparency and accountability in project selection, control of the projects by dominant members of the community, misuse of funds and unwillingness to contribute, and lack of ownership by communities.

The project's mid-term evaluation addressed these issues and recommended measures to increase transparency in the selection of microprojects and to ensure that they address local needs. Recommendations included participatory pre-project planning exercises to identify community priorities, project launch workshops to specify the roles of various local stakeholders, a project implementation manual to provide communities with simple guidelines on project implementation, and district-level workshops to discuss project selection and implementation and ensure communication between project, district, and provincial officials. These measures have led to a greater willingness by local communities to contribute funds and to stronger project ownership. Regular consultations with stakeholders has led to changes in the implementation process that will better ensure the attainment of project objectives in minimizing the effects of the economic crisis on the Zambian poor.

is substantial involvement throughout the project cycle (see box 4). A review of the Bank's investment operations illustrates steady progress in the use of participatory approaches. Directly affected stakeholders participated in 79 of the 203 projects (39 percent) approved in fiscal 1997, 94 of 223 projects (42 percent) in fiscal 1996, and 65 of 208 projects (32 percent) in fiscal 1995.[9] NGOs, private sector firms, and academic institutions participated in an additional 50 projects in fiscal 1996 and 26 projects in fiscal 1997.

Recent advances in mainstreaming participation at both operational and policy levels are documented in the 10 regional and central vice presidency participation action plans published in 1996. The action plans outline ongoing and future work programs that will increase the understanding of participation Bankwide. In addition, the Bank has initiated a system for monitoring progress in incorporating participatory methods in a select number of lending operations and economic and sector work. Twenty activities were selected based on their potential contribution as best practice examples of participation, particularly with respect to their attention to poverty.

Gender Dimensions of Poverty

In fiscal 1996 and 1997 the Bank continued to focus on integrating gender concerns into its lending and nonlending activities, with special attention to the gender dimensions of poverty. Promoting girls' education and investing in women's health care were key priorities in the Bank's lending portfolio. Bank activities also included specific actions directed toward women in agriculture and microcredit schemes and other mechanisms designed to improve women's economic opportunities and living conditions.

Many of the Bank's projects evidence increasing participation by women in the design and implementation stages of the project. The fiscal 1997 Rural Women's Development and Empowerment Project in India, which emphasizes institution building and improving women's economic and social status in six participating states, is noteworthy for involving women in the monitoring and evaluation of the project as well as in project design and implementation. Participating Women's Development Corporations will be trained by state monitoring and evaluation agencies to gradually take over the monitoring role in support of project management. A set of indicators for specific activities associated with the project will be developed to track progress, and household surveys will be evaluated to assess the client, household, and intrahousehold impact of project participation.

Ongoing concerns for effectively addressing the gender dimension of poverty are also reflected in the Bank's future work programs on gender. Forthcoming programs will focus on improving the availability of data and on strengthening the analysis of the gender dimensions of poverty. Emphasis will be placed on better integrating qualitative and quantitative approaches to enhance the policy and operational relevance of findings. Future work will also focus on improving the Bank's understanding of the gender impact of its lending program by developing gender-specific performance indicators and undertaking rigorous evaluations of the intermediate and long-term impact of Bank projects on women.

Measuring and Monitoring Poverty

Previous annual progress reports on poverty all pointed out that much more remains to be done to establish effective poverty monitoring systems for determining the progress and impact of poverty reduction efforts. They recommended that the Bank, together with governments and other donors, give greater attention to improving monitoring systems. The last *Annual Progress Report on Poverty* documents recent progress in data availability and presents estimates of the worldwide incidence and depth of poverty based on information from 122 surveys for 67 countries. Since then, results from at least 16 surveys have become available, 2 for countries where distributional data for estimating poverty are available for the first time (Mongolia and Papua New Guinea). IDA deputies under the IDA-11 agreements have asked for a report on recent plans for poverty monitoring activities for key IDA borrowers.

For understanding poverty in specific countries or areas and for determining how government policies affect people's welfare, accurate information is needed on the characteristics and behavior of households and their members. For monitoring the evolution of poverty and evaluating the distributive impact of policies (particularly on the poor), comparable and high-quality social indicators are needed, together with the household and community-based data to generate them. To complement such quantitative data, participatory techniques, such as those used in beneficiary or social assessments, can yield useful information based on the poor's own percep-

tions (see World Bank 1996g).

While gains have been made in collecting information and making it more available, progress has varied because of differences in economic and political conditions and in social sensitivities and priorities. A great deal more needs to be done to improve the quality and comparability of data and to remove such impediments to progress as weak government commitment to maintaining statistical systems, inadequate funding of such systems, and weak institutional capacity to collect, process, analyze, store, and disseminate statistical data.

Under the Living Standards Measurement Study (LSMS) and the Social Dimensions of Adjustment Project in Africa the Bank has been supporting efforts to improve data quality and increase country coverage in some 70 member countries. A research project on improving the policy relevance of LSMS surveys is examining lessons from the first 10 years of field experience. Preliminary results were presented at a workshop in June 1997, and a revised version of the output will be available in 1998 to guide further efforts in Bank support to these surveys. The research seeks to increase the range of policies that can be studied, to improve data quality, and to make the surveys more replicable. The Bank, in collaboration with the United Nations Development Programme and UNICEF, recently launched a program to develop better poverty monitoring instruments, beginning with an examination of the cost-effectiveness of poverty monitoring and qualitative techniques to support quantitative efforts. Building on these and other efforts, the Bank is funding new endeavors to promote work in this area, as well as intensifying focus on monitoring at the project level.

Some of these efforts are discussed below. These broad efforts have been complemented by regional- and country-level initiatives, which often are supported by technical assistance from bilateral organizations and other international organizations.

Regional Plans for Poverty Monitoring

Although the Bank supports poverty monitoring initiatives in all member countries, this discussion of regional monitoring and plans for future monitoring work focuses on key IDA borrowers. The Bank's efforts to improve poverty monitoring are of long standing, but it is an extremely difficult task, and more difficult in some countries than in others. The lack of uniformity across the regions in the scope, depth, and quality of monitoring reflects inherent differences in priorities and circumstances among countries. For example, the Europe and Central Asia region, which includes many new member countries, has a shorter history of poverty monitoring than other regions. In contrast, most countries in South and East Asia have long established statistical systems with strong traditions of household surveys of consumption and living standards. The problem of collecting accurate and current data is often compounded by the lack of government commitment to maintaining statistical systems. The Bank is limited in what it can do to generate in-country demand for poverty monitoring. Given the complexity of this undertaking, the Bank has had to be flexible in defining its plans for monitoring poverty. Nonetheless, the Bank's commitment to provide support in this area is firm. Within the context of the IDA-11 commitments, the Bank is developing plans to support monitoring efforts in many of the key IDA countries.

Sub-Saharan Africa

While timely and accurate data for monitoring poverty are less available in Sub-Saharan Africa than in other regions, significant progress has been made over the past 10 years. Much of this progress is attributable to the Social Dimensions of Adjustment Program of 1987–92. Government interest in improving poverty monitoring and enhancing the quality of statistics generally has increased substantially in recent years, and the Africa Region is working closely with governments to lift constraints (see box 5) and push forward more effective, sustainable statistical systems.

The establishment of strong statistical services should be linked to national economic reform programs, but the resources allocated to statistical development and information management are usually too small. Both objectives would gain from stronger linkages. Improved statistical systems and information are a prerequisite to improved economic management, and the additional attention and resources that accompany economic reform programs can provide the impetus for strengthening statistical offices. To this end, bilateral programs are focusing increasingly on institutional capacity-building. AFRISTAT is providing technical support to national statistical offices in franc zone countries. The Economic Commission for Africa has recently increased its support to statistics as a high priority activity in its work program. The World Bank's Africa Live

Database promises to be a strong tool for improving the dissemination of broad statistical information for all countries in Sub-Saharan Africa. With the help of Norwegian and Belgian trust funds, the Bank is continuing other support to national poverty monitoring and analysis systems. Twenty-eight governments, in conjunction with the World Bank and other international agencies, have formulated action plans to improve poverty monitoring, and detailed plans are already being implemented for Malawi and Zimbabwe (see annex H). Specific actions to be taken in data collection, analysis, dissemination, and capacity strengthening in these countries have been outlined for fiscal 1997.

The Addis Ababa Plan of Action for Statistical Development in Africa offers countries a sensible approach to rehabilitation of national statistical systems.[10] This action plan seeks to foster demand-driven, integrated statistical systems. The process starts with a statistical needs assessment to identify and prioritize user needs. This assessment is used to develop a 10-year statistics work plan from which to generate a strategic development plan that includes proposals for strengthening capacity across the full range of statistical activities—data collection, processing, storage, dissemination, and analysis. The intention is that the development plan will be in a format that can be taken to the donor community for support.

While the emphasis of the Addis Ababa plan is on building capacity at the country level, it also recognizes the need for supporting activities at the regional level to strengthen regional training facilities and technical support and to develop and maintain regional statistical databases and networks. The Coordinating Committee for African Statistical Development was established to coordinate programs at the regional level. The Special Program of Assistance for Africa (SPA) is also providing strong support for improvements in poverty monitoring in Sub-Saharan Africa.

Latin America and the Caribbean

In response to the urgent need for reliable information systems on which to base poverty assessments, the World Bank, the Inter-American Development Bank, and the United Nations Economic Commission for Latin America and the Caribbean (CEPAL) are cosponsoring financial and technical assistance to an initial set of countries in Latin America (Argentina, El Salvador, Paraguay, and Peru) to improve the qual-

Box 5. Lessons from experience pinpoint key problems in poverty monitoring in the Africa Region

The root problem is the low level of in-country demand for statistical information and consequent lack of government commitment to the maintenance of statistical systems.[1] Until demand for poverty and gender monitoring data and analysis strengthens, sustainable systems will not be developed. Thus, a program of continuous support to build user capabilities is an essential ingredient of any statistical capacity-building program.

Donor investment in national poverty monitoring systems has generated useful results, but self-sustainability is not ensured. A number of countries have produced useful surveys for poverty analysis, but there is little evidence that the countries have developed a sustained capability to carry on these activities. The number of household surveys initiated in 1996 and 1997 is significantly lower than for previous years, and the number is likely to decrease without additional donor support.

Donor support for statistical data has, in certain instances, focused less on capacity building and more on the generation of outputs of specific interest to the donor involved. There are also recent indications of withdrawal of donor support. Multidonor programs, such as the Household Survey Capability Program and the Social Dimensions of Adjustment, were important sources of support for national statistical offices, but they have now been terminated. Similarly UNFPA, a stalwart supporter of population censuses in Africa, is reorienting a number of its country programs toward other population programs.

Building viable and sustainable poverty monitoring systems also means addressing the broader problem that most statistical institutions in Africa are fundamentally weak. Poverty and gender monitoring can be effectively carried out only if there is a strong institutional capacity to collect, process, store, and disseminate statistical data. To overcome problems associated with low institutional capacity, attention should focus on improving communication between users and suppliers of data; strengthening management and channeling adequate resources to ensure improved productivity and effectiveness; employing appropriate statistical methods in data collection, processing, storage and dissemination; and focusing on capacity building in technical assistance to promote continuity of institution-building efforts.

[1] This box draws from the paper "Improving Statistical Information in Africa with Special Reference to Welfare and Poverty Monitoring."

ity of household survey data. The Program for Improving the Measurement and the Surveys of Living Conditions in Latin America and the Caribbean will promote quality enhancement and wide dissemination of user-friendly and timely household survey data. Program activities will be designed to meet the needs of participating countries. Country-specific activities could include establishing or improving household survey systems; strengthening the institutional capacity of the agencies in charge of household surveys and those responsible for using survey data in the design of social policies; and introducing uniform basic survey concepts and definitions to improve international comparability. The regionwide activities component of the program will contribute to maintaining, upgrading, and updating CEPAL's database of household surveys. Overall, this initiative will improve the design, monitoring, and evaluation of policies, programs, and projects aimed at reducing poverty and achieving greater social equity.

Specific actions are planned for Haiti and Nicaragua, the two IDA-recipient countries in the region. The poverty assessment for Haiti is expected to span 1996–97 because of the enormity of poverty and the absence of any recent economic and sector work. Phase I of the poverty assessment will be completed at the end of 1997 and will provide the basis for discussions at the Consultative Group meeting in November. In developing a strategy for poverty reduction, the assessment will draw on data from the Rural Livelihood Survey and several background papers. Because the lack of national-level data has hindered analysis of some critical issues in the poverty assessment, a phase II poverty assessment is planned for 1998–99. This work will begin with a countrywide LSMS survey and more in-depth analysis of issues that could not be adequately explored because of the paucity of data.

In Nicaragua, IDA is preparing a rural poverty study as a follow-up to the 1995 poverty assessment, which was widely disseminated. The 1995 study was based on a 1993 LSMS survey carried out by the government under an IDA project. IDA had planned a second survey (LSMS II) for 1997, but it was postponed because of the upcoming presidential elections. LSMS II will have a comprehensive agricultural module, which means that the timing of the survey has to fit in with cropping cycles. A recent IDA mission reached agreement with the government on the LSMS, currently planned for March-May 1998, and held discussions with donors interested in financing the exercise. The results of LSMS II will be used to complete a social accounting matrix for Nicaragua and as the basic input for the rural poverty study scheduled for completion in fiscal 1999. Technical assistance is being provided to strengthen the government's survey capabilities.

Europe and Central Asia

There are large differences in country capacity to field and analyze household surveys. For example, Armenia carried out a nationally representative random sample household expenditure survey in 1994, whereas Tajikistan has conducted no poverty-oriented household survey, mainly because of the difficult security situation in the country. Although countries in the region had routinely carried out household income and expenditure surveys (family budget surveys) prior to transition, these surveys are of limited relevance for poverty monitoring because of deficiencies in sampling techniques and questionnaire design.

The key challenge for countries in this region in poverty monitoring is to reorient and augment the capacity of the national statistical agencies to collect policy-relevant data on household incomes and expenditures in order to track how the transition is affecting household welfare. Income and expenditure surveys provide important information on the role of social transfers in reducing poverty, how well they are targeted; and where reform is needed. Other key indicators, including health data, provide an important window on the transition process, showing how life expectancy has declined and infant and maternal mortality has risen in parts of the region.

Some countries in the region, including IDA-eligible countries, have been willing to borrow for the first round of LSMS-type surveys, and several countries, including Latvia, Lithuania, and Russia, are also reforming their locally financed survey programs. The institutionalization of poverty monitoring in the collection and analysis of data remains a major challenge. LSMS-type surveys have proved costly to implement in some countries, and so far funding has come primarily from outside sources. A few countries have conducted follow-up surveys, and there is evidence of growing interest in the institutional capacity to monitor poverty. Georgia has just completed a first national survey financed under the Institution Building Credit. It will be analyzed jointly by the Bank and a Georgian team as part of the forthcoming poverty assessment. Armenia and the Kyrgyz Republic are the most advanced

of the IDA borrowers in this respect. Armenia's plans for future monitoring under the IDA-financed Social Investment Fund Project include a program for building up the capacity of the Department of Social Statistics and support for two new surveys to allow for in-depth analysis of the determinants of poverty. The Kyrgyz Republic is undertaking a fourth survey, which was revised to more closely resemble an LSMS survey. It will include issues related to the agricultural sector and fertility (see annex H).

Middle East and North Africa

There are two IDA-recipient countries in this region, Egypt and Yemen. In Egypt poverty monitoring has been difficult because of weaknesses in the historical information base and the changing economic situation. Since 1991 the Bank has been working with two organizations to improve the collection and analysis of data: the Central Agency for Public Mobilization and Statistics, the government agency responsible for collecting and processing socioeconomic data, and the Social Fund for Development, which finances programs to reduce poverty and is one of the largest users of poverty-related data. The Social Fund for Development, which has developed significant capacity to analyze data, conducted two surveys with technical help from the Bank—a household income and expenditure survey in 1991 and a priority survey in 1993. These surveys provided information on the extent of poverty and on the socioeconomic characteristics of poor households in rural and upper Egypt. A follow-up survey planned for 1997 will permit the first valid comparisons of poverty data over time. The analysis will be conducted under the proposed 1998 poverty update. The Bank also collects information on poverty in Egypt through its projects and sector work and its collaboration with other development agencies. In addition, special studies to identify the poor and ways to deliver services to them are often a part of the preparation of social fund, education, health, and population programs targeted to the poor. The Bank will continue to strengthen its information base and to build the capacity of Egyptian institutions to systematically monitor poverty through focused poverty analyses, sector work, project-related activities, and collaboration with other donors.

A poverty assessment was completed for Yemen in June 1996. Its poverty analysis was based on a household budget survey of 1992 conducted by the Central Statistical Organization. The statistical organization planned to conduct another household budget survey in 1997 to gain further insights into poverty in Yemen, as well as an agricultural census and an industrial census. Additionally, the World Bank is conducting a health expenditure survey to study equity issues in access to health services. A World Bank-UNICEF study of the situation of women and children in Yemen will incorporate several independent studies, including one on poverty among women and children. Mechanisms to support access to social services by the poor will be piloted and monitored as part of an education project under preparation. An IDA-financed Social Fund for Development Project, approved by the Board in fiscal 1997, aims to reduce poverty and improve the living conditions of its beneficiaries. Beneficiary assessments and impact evaluations will be used in measuring the success of the social fund.

South Asia

In general, Bank-supported programs focus on strengthening government statistical institutions, upgrading field skills and technology and analytical skills, and improving links between agencies that collect data (typically statistical offices) and potential data users (including research organizations, government policymakers, and the general public). An important objective of these programs is to base data collection on the needs of policymakers rather than to collect data automatically and without any policy focus, and to make information available to them in a timely fashion.

Bangladesh, India, Pakistan, and Sri Lanka have a long history of undertaking household surveys and already have the building blocks of a basic poverty measurement and monitoring system. They have the institutional capacity to undertake nationally representative household surveys and the internal capacity to use and analyze the information collected. India conducted its first National Sample Survey in the late 1950s; Pakistan and Sri Lanka started collecting household data on a regular basis in the mid-1960s; and Bangladesh continued and built on the system of household surveys it inherited at independence.[11] Bangladesh, India, and Sri Lanka also have considerable experience with poverty analysis, and there is active internal debate on poverty issues. Nepal's statistical system and data collection capabilities are less developed, but it has recently made considerable progress in developing a capacity for poverty monitoring. An LSMS project was initiated

in mid-1994, and a survey was successfully completed in 1996.

Poverty assessments have been completed for all active borrowers in the region. Except for Sri Lanka, whose poverty assessment was completed in 1995, all initial poverty assessments were completed in the early 1990s, and most used information collected in the mid- to late 1980s. Poverty assessment updates have been completed for Pakistan (September 25, 1995) and India (May 27, 1997) and are scheduled for fiscal 1998 in Bangladesh and Nepal.

The Bank has an ongoing program of support for poverty measurement and monitoring in Bangladesh and Pakistan and is developing a similar program with the National Sample Survey Organization in India (see Annex H). The earliest of these programs was initiated in Pakistan in 1987 and culminated in the first LSMS survey in South Asia in 1991. A program of support to Nepal's Central Bureau of Statistics was initiated in 1994 and completed in 1997. A similar program developed for Bangladesh in 1994 focuses on improving the current system of household surveys rather than on developing a new LSMS-type survey.

East Asia and the Pacific

The information needs and capabilities for poverty monitoring are quite different for the new transition economies in the region (China, Vietnam, Cambodia, Lao PDR, and Mongolia) than for the non-IDA countries. In general, the transition economies are undergoing more rapid economic and social change, generating a need for information on how stabilization and reform measures are affecting the poor and other vulnerable groups. With the exception of China, less information is available for these countries on poverty levels and the key determinants of poverty, particularly prior to 1990. Poverty continues to be an important concern in the three non-IDA countries (Indonesia, the Philippines, and Thailand), but changes there are less dramatic.

Both China and Mongolia have large statistical offices and survey capacity, with a long history of undertaking expenditure and income surveys. IDA provided support to the State Statistical Office in Mongolia for data analysis and implementation of the 1995 LSMS. In China separate urban and rural surveys have been conducted for more than a decade. Survey sampling and quality are good, and data are available within a year of collection. The Bank has also provided some support to the State Statistical Bureau for improving methods of measuring poverty.

Countries in the Indo-China peninsula (Cambodia, Lao PDR, and Vietnam) have small, less developed statistical systems and a much shorter history of undertaking sample surveys. Only limited information is available prior to 1990. Since the early 1990s the Bank has provided support for data collection and analysis (particularly for survey sampling, implementation of LSMS-type surveys, and poverty analysis) in Lao PDR and Vietnam (see annex H). The Bank is currently executing a program of technical support for Cambodia with financing from the United Nations Development Programme and the Swedish International Development Authority (see annex H). Other bilateral and multilateral donors have been active as well.

Indonesia, the Philippines, and Thailand all have well-developed statistical offices and have been undertaking regular household surveys for 20–30 years. Indonesia's SUSENAS surveys are known for their quality, coverage, and rapid turnaround. These three countries also have a wealth of information and knowledge on poverty gathered over a considerable period of time. The Bank has supported data collection and analytic activities in Indonesia in particular. Future work on monitoring in these countries is likely to include regular updating of established surveys, monitoring of short-term indicators of underlying changes in poverty, and tracking of changes in the levels of inequality.

Poverty assessments have been completed in all countries in the region except Cambodia within the past three to four years. For Cambodia a basic poverty profile report has been issued pending completion of its first multipurpose household survey in 1997. The full-scale poverty assessment will be undertaken in 1998.

Chapter 3: Safety Net Programs: Lessons from Country Experience

In the Bank's poverty reduction strategy, safety net programs are meant to complement the main strategy of broad-based growth and investment in human capital.[12] Some countries have reversed these priorities and emphasized transfers and safety nets in their poverty reduction agenda. But when rapid labor-demanding growth and human resource investments are not pursued vigorously, safety net programs, no matter how well designed, are unlikely to make a significant dent in poverty.

The Role of Safety Net Programs

In all societies the poor are the most vulnerable to temporary or long-term declines in income. They are, therefore, the most in need of publicly or privately financed safety nets. Safety net programs are designed to protect people suffering either from a chronic incapacity to work or earn enough income to survive, or from a temporary decline in earnings capacity because of cyclical declines in the economy or other temporary situations. Safety net programs are also of two types: with or without a work requirement.

Broadly defined, safety nets include publicly funded health and education programs, social insurance programs, and transfer programs targeted to the poor, as well as privately supported coping mechanisms and informal arrangements. Publicly funded safety nets should complement private transfers, not crowd them out, especially if they are from the well-off to the poor.

Selecting the Right Mix of Programs

Three factors should enter into the choice of safety net programs, starting with the extent and nature of poverty in the country. Is poverty a permanent, structural problem (chronic poverty) or temporary (transient poverty)? Which households are likely to fall into which category, and why? Having this information on the depth and severity of poverty is vital to the decision on what type of program to choose.[13] Several characteristics of the poor should also inform program choice:

- their income and expenditure patterns, the sources and variability of their income, and patterns of asset ownership
- their labor market characteristics
- their demographic characteristics (household size, gender, age, fertility, and household composition)
- their geographic or ethnic concentration
- their living standards, as evidenced by such indicators as mortality rates, nutritional status, literacy, and access to social services.

Thus the objectives of a social safety net program would depend on the nature of poverty in a given country, as shown in table 2.

The second factor is the mix and effectiveness of existing programs in a country. Some countries want to reform their social protection systems because the programs no longer meet the country's changed conditions. Thus before choosing a new mix of programs existing programs must be evaluated according to their cost, adequacy, and effectiveness in reaching the poor.

The third factor to be considered is country-specific circumstances, including growth prospects, policy reforms, socioeconomic and infrastructure constraints, administrative capacity, information availability, and fiscal and political constraints.

Thus, the nature of poverty and other country-specific factors set the conditions for the choice of safety net programs. In countries with a high incidence of rural poverty, where it is difficult to distinguish needy households from those that can do without transfers, cash transfers will not be feasible either in terms of targeting or of fiscal sustainability. Many African countries are in this category. These countries may find programs that include a work requirement to be the most effective because they in-

Table 2: Nature of poverty and objectives of social safety nets

Target group	*Objectives*
• Those unable to provide for themselves (for example, the handicapped) • Those able to work but whose incomes are low and irregular • Those usually capable of earning enough income to stay out of poverty but unable to do so because of temporary shocks (for example, economic reform or transition)	• Long-term assistance • Smoothing of income and consumption in slack seasons or programs ensuring more regular livelihoods • Short-term assistance to households and individuals, including temporary employment programs

volve self-screening by the genuinely needy and can complement growth by focusing on building infrastructure. Where poverty is mostly rural, income variability is high, and infrastructure is inadequate, an appropriate strategy may be to introduce public works programs during times of the year when little agricultural work is available. In countries that are experiencing sudden economic shocks or that are in economic transition, means-tested cash transfers can work only if the information base is strong. Where poverty is clearly and strongly correlated with family size, a universal family allowance can be an effective safety net.

Weighing Costs and Benefits

The costs of safety net programs should be assessed against their benefits since public funds have alternative uses that could be more cost-effective in reducing poverty. One way to measure the benefits to an individual or household from a safety net program is in terms of the dollar value of the transfer. For example, the benefits of a public works program might be measured as the wage received, net of transactions costs incurred by the participant. Both the value of transfers and the transactions costs vary by program.[14]

The full costs of a safety net program include the cost (amount) of the transfer, the administrative cost of running the program, the cost of errors in targeting, and incentive costs. The cost of the transfer is straightforward and differs by program. Administrative cost typically depends on the complexity of the program. Empirical estimates of administrative costs of safety net programs are often quite high, as a percentage of the total cost of the transfer program. In general, the more finely targeted the program, and the greater the information requirements, the higher the cost of administering a program. Programs that are self-targeted are usually the least costly to administer.

Safety net programs are intended for the poor and the vulnerable. In practice, however, all programs generate errors in targeting: the inclusion of nondeserving groups, and the unintended exclusion of some deserving groups. Calculating the precise costs of targeting errors is costly and time-consuming, requiring the collection of information on participants and nonparticipants. But experience and evidence suggest that the costs of errors in targeting can be quite high.

Incentive costs arise because safety net programs induce changes in participants' behavior that are undesirable. (They may also induce desirable effects, such as a food subsidy to households with children that encourages higher school enrollments). Programs that are too generous may distort the choice between labor and leisure. The disincentive to work is a major problem associated with program targeting based on means testing (usually income). Programs may induce people to move into areas where the program is operating, and if those who move in are not poor, program costs may increase without benefiting more of the poor. Finally, programs may promote unproductive use of resources or time.[15] A too generous health subsidy, for example, may result in overuse of health services. In many instances, the negative incentive effects may outweigh the beneficial impact of targeting. Incentive costs are difficult to measure, yet any measure of a program's cost that does not include incentive costs can be misleading.

Finally, the introduction of public transfer programs may reduce some portion of private transfers, which are common in most developing countries. Public transfers will be much less effective in reducing poverty if they crowd out private transfers, especially those from the well off to the poor.

Even imperfect cost estimates can serve as a rough guide for ranking programs. One such estimate uses

administrative costs and costs of leakage per unit of transfer to assess the cost-effectiveness of different programs.[16] A comparison of five food programs in India suggests a broad range of cost-effectiveness—from 6 rupees per rupee transferred to 1.8 rupees. Although the cost estimates do not include incentive costs, the comparisons are nevertheless useful.

While assessment of benefits and costs is helpful, however, it is not a good enough guide on how efficiently a targeted program is operating. For that what is needed is an assessment of the counterfactual — a comparison with alternative uses of the program budget. Data constraints often prevent an evaluation of the counterfactual, however.

The Programs in Practice: Cross-Country Experience

It would be desirable to design programs that minimize budgetary costs as well as incentive costs and that do not crowd out private transfers. The issues bearing on costs and benefits for each type of program and the lessons from cross-country experience can provide some guidance.

Cash Transfers

Two common cash transfer programs are general cash social assistance and the more specific family assistance.[17] These programs have the same primary objective of relieving poverty but they have different secondary objectives. In some countries family assistance is also designed to encourage large families. Family assistance has the greatest impact on reducing poverty when it is targeted to the poorest and most vulnerable households. But because in most countries households with incomes below the poverty line have a much greater proportion of children than adults, family assistance reduces poverty even when provided as a universal benefit to all children.

Cross-country comparisons show that social assistance and family assistance are used in two different ways. In high-income countries, a few countries in Latin America, and some countries in transition the programs are part of a much broader social safety net that includes social insurance. In some developing economies in Africa and South Asia social and family assistance are often the only cash transfer since there is no nationwide social insurance program.

Affordability and cost-effectiveness. Most countries in transition have been under extreme fiscal pressure to reduce subsidies and transfers. Many have cut back spending on universal family benefits. Some have introduced means testing (Ukraine and Kyrgyz Republic), while others have let inflation erode the value of the benefit (Estonia, Latvia, Lithuania, and Russia). Moldova introduced means testing and then dropped it because of administrative difficulties (which also afflict programs in Ukraine and Kyrgyz Republic), while Armenia restricts allowances to children under the age of six.

Means testing requires sophisticated administrative matching capable of verifying and monitoring family income (or welfare) and a culture of compliance with tax and other authorities. These characteristics are often absent in developing and transition countries. Also, means testing is administratively costly, and perverse outcomes (payment to the nonpoor and exclusion of the poor) are common, even in high-income countries.

Incentive costs. Means-tested social assistance programs can generate incentive costs by creating poverty traps. When the amount of the benefit received by an individual is too high, it creates an incentive to continue to receive benefits rather than to become self-sufficient. This increases the real cost of the program and reduces the effective protection of the genuinely needy. Most governments recognize this danger and build in incentives to counter it. Unless both the level and the coverage of cash transfers are kept in check, they are likely to generate incentive costs sooner or later, whatever the incentives offered to prevent it.

Targeting and distributional efficiency. In most countries poverty is strongly correlated with the number of children in a family. In such cases, a universal family benefit is both pro-poor and simple to administer. However, universal benefits can result in substantial leakage to the nonpoor, as happened in Bulgaria, Poland, and Romania (table 3). To improve targeting some countries are adopting alternative eligibility criteria. For example, some countries in Latin America (where residence is strongly correlated with poverty) are using geographical targeting while India and Mongolia are using categorical targeting (rural widows, female-headed households).These methods are used to provide benefits to the poorest at a lower administrative cost than means testing. Poland recently modified its social assistance legislation to improve the targeting of benefits for the poor. Despite leakages, universal family allowances may nevertheless be the most appropriate program for reach-

ing the poor in some countries in transition, where other forms of social assistance have been eroded and pension systems benefit mainly the better-off.

Fiscal decentralization and social assistance programs. Fiscal decentralization has worked well in some countries (for example, Togo) and can bring significant benefits when it does. However, it may increase the difficulty of financing social assistance programs, especially in large countries with resource-poor regions. For example, under the socialist system in the Soviet Union, revenue-sharing and other economic arrangements among republics had provided a cushion against poverty. Today, revenue shortages are forcing central governments in transition economies to withdraw revenue-sharing instruments from local governments without providing substitutes. So that the poor in the poorest regions are not shortchanged, however, fiscal decentralization should ensure that functional responsibilities for expenditures areas are matched by adequate revenue assignments. Without such matching, fiscal decentralization may exacerbate financing shortfalls for critical transfers to the poor in revenue-poor regions.

Lessons. Experience with cash transfers suggests several principles that should be applied in design for such programs (Subbarao and others 1996, chap. 3, 9, and 10):

- Where the number of children in a household is strongly correlated with poverty, family size can be a useful eligibility criterion—and one that makes the transfer program simple and easy to administer.
- Where little information is available on household characteristics, it is worth considering alternatives to a family allowance (such as transfers with a work requirement or targeted nutrition interventions) rather than to administer costly and often ineffective means tests.
- Where programs are relatively small and the poorest are easy to identify, social assistance is an effective means of reducing poverty, especially in countries where private transfers are not common.
- Where fiscal decentralization is introduced, functional responsibilities for expenditures must be matched by adequate revenue assignment; otherwise, the poor in revenue-poor regions may not receive social assistance transfers.

In-Kind Transfers

In-kind transfers occur whenever a commodity or service is provided at a price lower than its market-determined price. Governments often use in-kind transfers when they want to encourage consumption of a particular commodity (for example, food) or to modify behavior. If the commodities or services are consumed disproportionately by the poor (such as coarse varieties of bread or rice), the programs tend to attract only the poor, making self-selection more likely to succeed in in-kind programs than in cash transfer programs. Thus in-kind transfers offer greater scope for better targeting. Such transfers also hold their real value during periods of inflation. The most common types of in-kind transfers are food, housing, and energy subsidies; only food subsidies are reviewed here.

Food subsidies. Food subsidies are offered through four types of food transfer programs: general price sub-

Table 3: Family assistance selected programs in transition countries, 1993–95

Country	*Percentage of poor households receiving transfers*	*Percentage of nonpoor households receiving transfers*	*Percentage distribution of transfers*		*Average household size (number)*	
			Poor	*Nonpoor*	*Poor*	*Nonpoor*
Bulgaria	—	—	19	81	3	3
Hungary	46	22	—	—	—	—
Kyrgyz Republic	51	50	58	42	5	4
Poland[a]	64	46	26	74	4	3
Romania	75	10-12	44	56	4	3

— Not available.

Note: Poor and nonpoor categories are based on relative poverty lines and so are not comparable across countries.

[a] The situation may have changed following new social assistance legislation.

Source: Subbarao and others 1996.

sidies, quantity rationing, food stamps, and nutrition interventions (including school feeding programs).[18] The general price subsidy predominates in most African and Middle Eastern countries, quantity rations are common in South Asia, and food stamps are common in Latin America. All regions also have some nutrition interventions and direct food transfers.

Untargeted food transfers are generally too costly to be fiscally sustainable. Most countries introduced food transfers (not necessarily targeted to the poor) when shocks led to disruptions in household food security. These programs have changed over time in response to fiscal pressures (Sri Lanka and Tunisia), lack of cost-effectiveness (India and Philippines), or high inclusion or exclusion errors (Brazil and Egypt). Whether the program was modified, replaced, or eliminated usually depended on political economy considerations. In some cases, attempts to eliminate food transfer programs led to riots, eventually forcing the government to back down.

Most program changes resulted in lower budgetary costs. Sri Lanka's switch from a universal ration program to a targeted food stamp program cut cost from 5 percent of GDP to 1.3 percent. But it is important to ensure that programs still reach the poor once the changes have been made. That has not always happened when countries have switched to targeted programs. Sri Lanka's initial attempts at targeting were successful, but when the program lost political support allocations to the program were cut. In the end, the poor ended up with smaller income transfers per household than they had received from the untargeted program. Targeted programs need to be designed to include an element of self-selection (a built-in likelihood that the poor will choose to participate while the nonpoor will not) while also ensuring adequate political support. Tunisia recently cut costs without losing political support and increased benefits to the poor by subsidizing foods disproportionately consumed by the poor.[19]

A targeted program should be cost-effective in delivering transfers to the poor. Total budgetary costs (administrative costs and food costs), as a percentage of GDP, are typically higher for general price subsidies and quantity rations than for more closely targeted programs such as school feeding.[20] The administrative requirements and the amount of food transferred also affect costs. Studies of Latin American programs show that food costs contribute more to total costs than do administrative costs (see Grosh 1994 and Sabbarao and others 1996). Programs that have work requirements or other obligations (such as sending children to school) have proved to be much more cost-effective than food rations. A program in Bangladesh that made the availability of subsidized food conditional on a household's sending its children to school was self-targeted to the poor and also more cost-effective than other programs—and had the added benefit of increasing enrollments.

Targeted maternal and child nutrition programs are the least likely to generate disincentive effects, but the design of the program is critical for achieving the desired targeting outcomes. Nutrition programs are also useful for combatting intrahousehold discrimination—for example, by targeting food supplements to particularly vulnerable groups such as pregnant or lactating women. Clinic-based programs that combined health inputs and nutrition supplements and that were participatory scored well in reaching those most in need.

Like all transfer programs, food transfer programs have some incentive costs. A recent study of the food stamp program in Sri Lanka found a substantial reduction in work effort among those who received food stamps.[21]

Lessons. Food subsidy programs, whatever their form, work better when they have certain characteristics:

- Targeted programs are more cost effective and fiscally sustainable than untargeted food transfers, which should be avoided. In all countries, self-targeted approaches seem preferable to means testing.
- In general, targeting methods that impose an obligation on the recipient are best for ensuring that the program benefits only the needy. The obligations should not be so onerous as to impose significant transactions costs on the poor.
- Selection of commodities that are disproportionately consumed by the poor helps achieve self-targeting and has proven cost-effective.
- Although they can be administratively intensive, food transfers targeted to women and children can be an effective means of supporting the poor with minimal distortions.
- Narrowly targeted programs may lose political support and hurt the poor.

Income Generation Programs

In income generation programs, unlike cash or in-kind transfers, recipients receive an income transfer in exchange for their labor and time. The most common income generation programs are labor-intensive

public works and credit-based self-employment (livelihood) programs. Public works are often used as a temporary measure to smooth consumption during economic shocks or natural disasters. Credit-based livelihood programs aim to help the poor increase their income on a sustainable basis. Both programs involve subsidies. One merit of public works programs is their flexibility: they can shrink or expand as needed. They are particularly suitable for countries emerging from conflicts, where the need to rebuild infrastructure destroyed is pressing.

Public works. Transfer from public works programs equal the wages paid to workers net of any costs incurred—the costs of participation and the forgone earnings from alternative employment, which are rarely zero. It is possible to design and time programs to reduce these costs. Setting up public works in areas that are close to where the poor live can reduce their costs of participation, while setting wages at less than or equal to the market wage for unskilled labor is likely to encourage the poor to join the program and to discourage the nonpoor from doing so. Timing the program in agricultural slack seasons can reduce incomes forgone in work programs.

Cross-country experience shows that five aspects of such programs deserve particular mention:

- *The wage rate and targeting.* The best way to ensure that the program reaches the poor (and to keep down costs) is to hold wages at or below the market wage rate for unskilled labor. In Burkina Faso and Senegal program wage rates that were lower than market wages resulted in high participation rates by the poor. In Chile public works were an important safety net in the 1980s. Wages set at 70 percent of the national minimum wage helped attract only the poorest groups to the program. Wages that are set too high can reduce the program's effectiveness by resulting in job rationing. In the Maharashtra Employment Guarantee Scheme (MEGS), raising the statutory minimum wage and consequently the program wage rate in 1988 contributed to job rationing, thereby eroding the program's guarantee of employment. In Botswana and Tanzania wage rates above those paid in comparable unskilled activities also resulted in jobs rationing, particularly during droughts when the poor's need to participate in public works was the greatest.
- *Duration and timing of employment.* Careful timing of programs can also help achieve a certain measure of targeting—for example, by synchronizing work programs with the agricultural slack season. India's nationwide public works program, Jawahar Rojgar Yojna, though it generated over 800–850 million person-days of employment annually, transferred benefits that were too small to raise the incomes of poor families (often as low as five person days of wage income per family per month). Yet because wage rates were higher than market rates, nearly 30 percent of participants were not poor. Despite these shortcomings, the program enabled households to smooth (stabilize) their consumption because it operated intensively during the agricultural off-peak season. Even the Maharashtra Employment Guarantee Scheme, despite its job rationing and reduced overall job creation following the 1988 wage hike, provided significant income stabilization benefits because it operated intensively in agricultural off-peak seasons. Programs in Kenya and Tanzania, however, had high wage rates and operated during the busy agricultural season, thereby significantly diminishing both the transfer and stabilization benefits to the poor. Bangladesh's food-for-work program was also poorly synchronized with seasonal patterns of need for work and food.[22]
- *Share of wages in total cost.* While it is desirable in public works programs for wages to constitute a high share of the total cost (so that there is a high transfer of benefits to the poor), this ratio is influenced by many factors. The availability of technically and economically feasible labor-based methods of production is one determining factor. In most road construction programs, for example, the share of wages in total cost ranged from 0.4 to 0.5.
- *Cost per job created.* Factors influencing the cost per job created include the mix of locals and expatriates involved in implementation, the delivery mechanism selected, the use of private contractors, the wage rate, the capital-intensity of operations, and the general and administrative capacity of the country in question. The wage rate and share of wages in total cost are especially important. Country experience shows that not all countries managed to create jobs at low cost: total cost per job created ranged from $1 per person-day of employment created in Bangladesh to $8 in Bolivia (see Subbarao and others 1996).
- *Impact on incomes and poverty.* Evaluations of work programs have shown significant income gains to participants. Numerous studies of India's nation-

wide program and the Maharashtra Employment Guarantee Scheme have found that 60 to 70 percent of participants came from poor households. The immediate net income gain from work programs as a percentage of total gross earnings is high in these programs. The income gained by the poor who participated in the Maharashtra program reduced the severity of poverty from 5.0 percent to 3.2 percent. Significant, though unquantifiable, social gains can be attributed to the program as well. For example, the fact that large numbers of women have participated in the program has enhanced their economic power and raised their status within the household.

In addition to these five factors, implementation problems can also trouble public works programs. Program participants may have to pay a part of their wages to officials or contractors as bribes or incur travel or other related transactions costs that can reduce program benefits. There are ways to reduce transactions costs, such as by involving NGOs and local groups in planning and implementation. Piece-rate arrangements, if properly supervised and enforced, can reduce the scope for corruption. Tendering contracts to private contractors on a competitive basis can reduce transactions costs. Factors that interfere with women's participation in these programs can be remedied by projects that allow flexible work schedules, provide work close to women's homes and villages, and offer childcare at the worksites.

Lessons. Several lessons can be derived from experience with public works programs:

- Setting wages at the market rate for unskilled labor or slightly lower can encourage the poor to self-select into the program.
- The benefits offered by the program can be affected by the timing and duration of employment. Year-round programs may be more important in countries where poverty is particularly severe or where serious natural fluctuations such as drought (for example, in Ethiopia) afflict large parts of the country.
- Programs can be designed to encourage more women to participate, more private sector firms to become involved, and more poor people to participate by lowering their transactions costs. Involving NGOs and local people in planning and implementing these programs can increase accountability and minimize abuse.

Credit-Based Livelihood Programs

Making credit available to the poor can help them generate income and improve their lives. In many developing countries four types of institutions are engaged in such activities:

- Public banking institutions, cooperatives, and commercial banks under the control of the central bank
- Special programs (such as the Integrated Rural Development Program in India) administered by a central ministry that directly advance subsidized credit to the poor, usually for the purchase of income-earning assets
- Large, formal credit institutions administered by NGOs
- Self-help groups that operate informally and on a small scale with NGO support.

Several factors affect the success of credit-based livelihood programs. These include whether the deserving poor were able to obtain credit while the nonpoor were screened out (targeting efficiency); whether the poor were able to realize high enough rates of return to repay their loans and raise their living standards; whether the income gains are sustained over time; and whether the program is financially viable and sustained over time.

Targeting. Country experience suggests that subsidizing interest rates and targeting credit to households identified as poor by public officials or project managers are ineffective ways to reach the poor. Interest subsidies have attracted large numbers of people who are not poor in practically every country where such programs have been tried. And when governments set targets for reducing poverty, public officials have a strong incentive to select people who are just below the poverty line. Thus programs can show a large reduction in the number of people in poverty while leaving the depth and severity of poverty unaffected.

Programs that adopted innovative design features to lower the transactions costs to the poor for obtaining credit but offered no interest rate subsidies have had much better records in reaching the poor. These include programs that rely on local communities to identify the poor or on geographical targeting, land ownership, or similar categorical targeting rather than income-based means tests administered by public officials. Some programs have had success in reaching mainly the poor by applying rules that make

loans more attractive to the poor than to others, such as small loan size and group lending. Programs such as the Grameen Bank in Bangladesh have dropped the requirement for collateral and are able to advance small loans to recipients quickly. In some countries even commercial banks are searching for alternatives to physical collateral. In some provinces in India and Nigeria commercial banks have involved NGOs as intermediaries between banks and borrowers. In Indonesia, Badan Kredit Kecamatan (BKK) has used local agents (typically influential people in a village) to speak on behalf of the borrowers. In India the Mysore Resettlement and Development Agency (MYRYDA) has reached the poor without resorting to group lending by defining the roles of loan officials clearly and by enforcing performance standards.

Some programs initiated by NGOs (such as MYRYDA in India) have been more successful than government programs in reaching larger numbers of poor women. In India women constitute less than a quarter of the beneficiaries of the large, state-run Integrated Rural Development Program (IRDP), whereas they account for more than 60 percent in MYRADA (and more than 90 percent in the Grameen Bank in Bangladesh). A range of programs and self-help groups have successfully engaged large numbers of poor women in their activities.

Repayment. Several factors have been found to affect program repayment rates. Women tend to have better repayment records than men. Subsidy-driven special programs such as IRDP have an especially poor repayment record, although not all large government programs have poor repayment records. The two national Indonesian credit institutions—BUD and BKK—offer an innovative monthly interest rate rebate scheme that gives poor borrowers an incentive to pay back their loans on time. In addition, with a small average loan size, BKK permits weekly—and sometimes even daily—repayments. Factors such as these reduce borrowers' transactions costs, helping ensure a high recovery rate. Government programs that lack these components have had high transactions costs and poor repayment records.

Lessons. If credit programs are to succeed in reaching the poor, it is important:

- To reduce the transactions costs of these programs to the poor (cutting down the number of trips that must be made to the credit office, avoiding corruption, simplifying repayment procedures)
- To subsidize transaction costs if necessary but not interest rates
- To avoid targeting credit programs on the basis of means tests, and to use local groups to identify likely candidates instead
- To design the program appropriately (using small and repeat loans, peer pressure, and group monitoring) to encourage the poor to self-select into the program
- To encourage potential borrowers to organize groups to borrow collectively
- To include incentives that encourage prompt repayments
- To incorporate savings as a necessary component of the program.

Delivery and Organization of Safety Net Programs

Safety net service delivery involves two key activities: provision, meaning the design and organization of services (often including its financing or purchasing), and production, meaning the creation of the service (construction of a road, administration of a nutrition information campaign). There are also two models of delivery: the traditional public delivery model and the more recent private delivery model.

In the traditional public delivery model the government undertakes both service provision and production. While there are examples of effective public delivery of safety net programs, such programs tend to be supply-driven and susceptible to political interference. Also, the quality of services is often low (Jayarajah, Branson, and Sen 1996), although other forms of delivery are not necessarily free of these problems.[23] In most cases public delivery of safety net programs suffers from the effects of poor incentives for public employees, financiers, and consumers and inappropriate bureaucratic organization and rules. Even when the programs have been decentralized, local governments have often failed to adapt them to regional circumstances, and the incentive problem has persisted.

With private delivery, services are provided and produced by a range of organizations, such as private contractors, NGOs, or community groups, sometimes in partnership with public agencies. Both commercial and noncommercial institutions participate. Each private sector provider operates with a different incentive structure.[24] Since it is not always feasible or politically acceptable for providers to recover the full costs from users, private commercial companies cannot finance such programs on their own. One

option is for the government to pay a private company to deliver the service, especially if the private firm enjoys a comparative advantage in managing, organizing, or producing the service.

Both the public and private delivery can be funded by the government or by donors. They may be funded through social funds—agencies that disperse funds, usually as grants, for subprojects suggested by local people and community organizations. Disbursal follows established criteria, and the money is channeled to any public agency, NGO, or community group that has demonstrated the capacity to deliver basic services or programs to the poor effectively. Private contractors are often hired by recipient groups to produce the services. Social funds are usually managed jointly by representatives of the government and of private agencies.

The principal lesson emerging from cross-country experience is that the choice of the delivery model is critical and should be based on whichever delivery model can reduce the transactions costs of the poor (See Subbarao and others 1996).

Key Messages

Eight principal messages emerge from this review of country experience with safety net programs:

- Safety net programs alone cannot reduce poverty, even when they are well-designed, so they should never be used as the primary means to reduce poverty. Rather, safety net programs should complement broad-based, labor-demanding growth strategies and human capital investments.
- Keeping transactions costs low promotes participation of the poor, particularly in credit programs.
- How a program is designed and delivered significantly affects how much it benefits the poor, especially groups who are often inadequately served by some safety net programs (for example, poor women). Countries as diverse as Bangladesh, Jamaica, and Mongolia have adopted innovative designs, delivery mechanisms, and administrative procedures to ensure that such groups have access to safety net programs.
- Keeping a program's administrative costs low as a percentage of the total program budget helps to ensure that the program will be sustainable. Fiscal constraints vary from country to country, but they are especially acute in countries in transition. Governments that need to make spending cuts should take care not to abolish or reduce vital transfer programs (family assistance and social assistance). Rather, they should modify eligibility standards as needed, ensuring that the poor are not excluded.
- The trend toward decentralizing government functions can bring significant benefits, but there is a danger that needed programs may not be funded in the poorest municipalities or regions. In some countries of Eastern Europe and the former Soviet Union, the funding of child allowances and social assistance is being transferred to local authorities that lack the resources to pay for such transfers to the needy. To ensure that the poor in the revenue-poor regions benefit from social assistance, decentralization of expenditure responsibilities should be matched by adequate revenue assignments.
- Universal subsidies, designed to benefit the whole population, have proven inefficient, distortionary, and fiscally unsustainable. Where politically feasible, transfer programs ought to be targeted to those who are most in need.
- The extent and methods of targeting need to be chosen with care. The poor may actually lose out from too much fine tuning in targeting. In certain circumstances, self-targeted approaches and programs that confer specific obligations on the transfer recipient may be more cost-effective than finely targeted approaches, even if all leakages of benefits to the nonpoor are not prevented.
- While all social assistance transfers to some degree diminish incentives to take other actions to improve one's economic situation, it is difficult to measure these costs empirically. The best way to minimize such incentive costs is to keep the amount of the transfer low and to be sensitive to changes in the behavior of recipients as a result of receiving a transfer that might raise the real economic costs of the program.

Safety Net Programs Funded by the Bank in Fiscal 1996 and 1997

The Bank's lending portfolio of activities with a safety net feature cuts across all regions and sectors. For analytical purposes these activities are placed into two broad categories: projects mainly concerned with safety net components, and adjustment operations with safety net components. Safety net projects and adjustment operations with safety net components approved in fiscal 1996 and 1997 are listed in annex I.

Safety Net Projects

The Bank has sought to support safety net programs essentially as complements to growth-promoting activities. For example, temporary employment generation is linked to developing basic infrastructure such as roads and water supply systems or rehabilitating schools and health centers. Yemen's Public Works Project (fiscal 1996) is expected to generate 75,000–96,000 person-months of employment in areas with above-average unemployment rates. In Bangladesh the Poverty Alleviation and Microfinance Project (fiscal 1997) will expand microcredit-financed activities for the poor, over 90 percent of whom are women. The Morocco Social Priorities Program (fiscal 1996) to improve local infrastructure may also boost demand for basic education and health services. The Employment Generation Project (fiscal 1996) in Haiti would provide short-term employment to people in extreme poverty; at least 20 percent of the workers would be poor women. In Argentina the Second Social Protection Project (fiscal 1997) aims to provide about 350,000 poor unemployed workers with temporary income support through small, quickly implemented labor-intensive investments under the TRABAJAR public works program. The Rural Poverty Alleviation Project (Piaui) in Brazil (fiscal 1997) will provide grants to rural community associations to finance small-scale subprojects designed to increase employment and income-generating opportunities for the rural poor.

Much of Bank work on safety net programs in economies in transition, where the real value of pensions and other social benefits has declined sharply, has focused on analytical work bearing on restructuring and assessment of options for reform. In Latvia, the Welfare Reform Program (fiscal 1997) seeks to improve the capacity of the government to help localities to target and provide services to the poor and vulnerable in response to their needs during the transition to a market economy.

Where public delivery of services is unsatisfactory, alternative delivery mechanisms are required. One institutional alternative is the social fund. Social fund projects involve local communities in project design and implementation. Between fiscal 1987 and 1997 the Bank approved 56 social fund projects (4 of them in fiscal 1996 and 5 in 1997). Forty-five were active at the end of fiscal 1997, amounting to a portfolio of $1.4 billion ($1 billion funded by IDA).

The objective of the Second Social Fund Project in Egypt (fiscal 1996) is to create jobs by providing support for small enterprises and labor-intensive works and financing community infrastructure and services in partnership with NGOs and local groups. This project is designed to help women, the poor, and the unemployed. The Madagascar Social Fund II Project (fiscal 1996) will rehabilitate schools and health centers. The Malawi Social Action Fund (fiscal 1996) will finance a safety net operation in poor and food-deficient areas through labor-intensive public works for constructing, rehabilitating, and maintaining economic infrastructure. These works will generate significant employment at the rural minimum wage for people with no alternative income-earning opportunity. The Peru Second Social Development and Compensation Fund (FONCODES) Project (fiscal 1997) will continue to sustain the government's poverty alleviation efforts, mitigate the social costs of adjustment, and strengthen the institutional capacity of FONCODES. The community-based subprojects funded through FONCODES support a range of labor-intensive projects with a strong focus on education, health and nutrition, and other activities that would benefit poor rural and peri-urban populations.

Safety Net Components in Adjustment Operations

Of the 29 adjustment operations in fiscal 1996, 17 were classified as poverty-focused and half of these had a safety net component. The pattern is similar for fiscal 1997: 18 of 29 adjustment operations have a poverty focus and about half of them contain safety net components. Many of the safety net provisions consist of measures to protect critical social sector spending or particular transfer programs for the most vulnerable. In Algeria's Structural Adjustment Loan (fiscal 1996) the government has put in place a social safety net designed to limit the negative impact of adjustment on the poor. In Armenia the Structural Adjustment Credit (fiscal 1996) is designed to provide stipends for low-income students.

The Social Protection Adjustment Loan in Russia (fiscal 1997) will establish structural reforms in pension and welfare programs, including child allowances and benefits for laid-off workers. Romania's Social Protection Adjustment Loan (fiscal 1997) will focus on the most vulnerable groups and on those hurt most by the reforms through universal child allowances, agricultural pensions, feeding programs,

minimum income guarantees, electricity subsidies, and a temporary income support to buffer the effects of higher bread prices. The Chad Second Structural Adjustment Credit (fiscal 1997) will support the reintegration of demobilized soldiers into civilian life through a pilot program that includes food provision, employment services, housing assistance, and basic health services.

While restructuring the coal sector is a crucial part of the government's stabilization program in Russia, coal miners, their families, and affected communities will need special assistance to help them adjust to the restructuring. The Russia Coal Sector Adjustment Loan (fiscal 1996) will support the redirection of subsidies toward the needy and the establishment of special community support and employment programs in areas where unemployment of former coal miners is expected to be high. Similarly, the Ukraine Coal Sector Adjustment Loan (fiscal 1997) aims to mitigate the social impact of coal sector restructuring through timely settlement of social liabilities and special programs in oblasts hard hit by mine closures.

Notes

[1] These figures are based on 1985 U.S. dollars converted at purchasing power parity (PPP) exchange rates that adjust for price differences between countries (see World Bank 1996e).

[2] Address by James D. Wolfensohn to the World Bank–International Monetary Fund Annual Meetings in Hong Kong, China, September 23, 1997, "The Challenge of Inclusion."

[3] The total includes both full and limited country assistance strategies. For relatively new borrowers (such as Eritrea, Mongolia, and Tajikistan), where information about the country is just beginning to be collected, a "limited country assistance strategy" lays out the Bank's initial strategy based on knowledge available at this time. Excluded from this total are an additional nine country assistance strategy progress reports that went to the Board in 1996 and five that went to the Board in 1997. On January 12, 1996, the Board approved certain changes designed to reduce problems in scheduling country assistance strategy discussions, including the introduction of a country assistance strategy progress report for certain borrower countries. For countries where a full country assistance strategy would normally be prepared and discussed every two years, a short progress report would be prepared in the intervening year. The progress report would be a brief document that covers progress in implementing the current country strategy and confirms that the overall objectives and strategy set out in the full country assistance strategy remain appropriate.

In fiscal 1996 the Board reviewed the following full and limited country assistance strategies: Algeria, Bangladesh, Bulgaria, Cameroon, Chad, Eritrea, Jordan, Kenya, Lao PDR, Lesotho, Malawi, Moldova, Mongolia, Mozambique, Nepal, Pakistan, Papua New Guinea, Philippines, Sri Lanka, Tajikistan, Tunisia, Ukraine, Vietnam, and Yemen.

In fiscal 1997 the Board reviewed the following: Argentina, Azerbaijan, Brazil, Burkina Faso, Cambodia, China, Egypt, El Salvador, Guinea Bissau, Haiti, Madagascar, Mauritania, Mauritius, Mexico, Morocco, Paraguay, Poland, Republic of Congo, Romania, Russia, Slovenia, Tanzania, Turkmenistan, Uganda, Uruguay, Venezuela, Zambia, and Zimbabwe.

[4] The poverty assessments was completed in 1990 for Bangladesh and in 1991 for Egypt, Mexico, Mozambique, Nepal, and Venezuela.

[5] *Linkage* refers to the extent to which country assistance strategies incorporate the main findings of the poverty assessments, along broad lines of the overall strategy recommended in the poverty assessment (labor-absorbing growth, human capital development, agricultural reforms, infrastructure development, safety net programs). The focus is limited to main findings because country assistance strategies reflect priorities and, thus, not all the issues covered in the poverty assessment have to be addressed.

[6] A project must meet at least one of two criteria to be included in the PTI: the project includes a specific mechanism for identifying and reaching the poor, or the proportion of the poor among project beneficiaries is significantly larger than their proportion in the overall population.

An adjustment operation is considered to be poverty-focused when it meets at least one of the following three criteria: it reorients public expenditures in favor of the poor, including protecting and expanding expenditures on basic social services and rural infrastructure; it eliminates distortions and regulations that limit the access of the poor to labor and credit markets, productive resources, and basic social services, as well as policy-induced distortions in input or output pricing in order to help the poor increase their income-generating opportunities; or it supports safety nets that protect the most vulnerable. Monitoring poverty and developing poverty policy are no longer included as poverty-focused criteria. (It should be noted that past adjustment operations have never been classified as poverty-focused based on either of these two criteria alone.)

World Bank lending to certain sectors also supports the efforts of governments to reduce poverty more directly. See Annex G for fiscal 1996 and 1997 lending to selected sectors.

[7] This result is based on age-adjusted analysis undertaken because of the relatively young age of PTI projects (see World Bank 1997a and forthcoming). In fiscal 1996 there were 346 PTI projects and 1,406 non-PTI projects in the Bank's active portfolio; in fiscal 1997, there were 422 and 1,344. The percentages of problem projects are as follows:

An adjustment was made to the non-PTI group to

Problem	Fiscal 1996 PTI	Fiscal 1996 Non-PTI Unadjusted	Fiscal 1996 Non-PTI Age-adjusted	Fiscal 1997 PTI	Fiscal 1997 Non-PTI Unadjusted	Fiscal 1997 Non-PTI Age-adjusted
Implementation	14.6	17.0	16.0	14.6	14.9	14.8
Development objectives	7.3	12.4	10.0	9.8	12.3	11.0
Projects at risk	25.7	35.7	26.5	24.6	27.6	24.7

include only projects in the portfolio that are comparable in age to those in the PTI group. An age-adjusted analysis was done to account for the positive performance of PTI projects due to their relatively young age (fiscal 1992 was the first year the PTI classification became effective).

[8] See World Bank 1997b for further details on the "projects at risk" concept used in identifying potential problem projects.

[9] Participation refers to intended involvement of stakeholders beyond information sharing, consultation, and joint-assessment at any stage of the project cycle and includes shared decision-making and collaborative mechanisms to ensure beneficiary input into the project.

[10] The Strategy for the Implementation of the Addis Ababa Plan of Action for Statistical Development in Africa was adopted in April 1992 by the Europe and Central Asia Conference of Ministers.

[11] Socioeconomic strategies in South Asia historically focus on consumer expenditures rather than incomes (as, for example, in Latin America). Accordingly, statistics on poverty and inequality in South Asia are expenditure-based rather than income-based. It is important to keep this in mind when making international comparisons of levels of poverty and inequality. South Asia's apparently low levels of inequality are at least in part attributable to the historical use of expenditure-based estimates. Since household incomes are typically more skewed in distribution than are household expenditure levels, income Ginis are usually higher than expenditure Ginis.

[12] Chapter 3 is based on a recently completed best practice paper on safety net programs. A fuller discussion of the issues is found in Subbarao and others (1996).

[13] *Incidence* refers to the number of the poor (people with an income below the poverty line). The *depth* of poverty refers to the average income shortfall from the poverty line of those who are poor. The *severity* of poverty refers to how far the income of the poorest of the poor falls below the poverty line. This last measure accounts for the distribution of income among the poor (Lipton and Ravallion 1993). Poverty is considered *shallow* when most of the poor are clustered close to the poverty line, in which case the severity of poverty is low.

[14] For a detailed discussion under individual programs, see Subbarao and others (1996).

[15] This is known as the moral hazard problem.

[16] In some instances, cost-effectiveness ratios can be deceptive; in any event, these ratios can never be the sole criterion for program choice.

[17] *Cash social assistance* refers to a range of cash benefits intended to provide protection for the most needy in society. The assistance is usually financed out of general tax revenues. *Family assistance* refers to all benefits in cash targeted directly to children or families with children. *Social insurance* refers to benefits organized by the state through compulsory contributions by individuals or enterprises.

[18] For a review of the in-kind subsidies for energy and housing, see Subbarao and others (1996, chap. 4).

[19] Countries with better targeting include Jamaica, Jordan, Honduras, and Mexico. For details, see Subbarao and others (1996).

[20] One might argue that primary schooling is so important that school feeding may be necessary to encourage it. School feeding, therefore, might be a good idea even if it is expensive; it may be important for political reasons as well.

[21] Research has shown that in the rural areas of Sri Lanka, the reduction in work effort had a corresponding value of 50 percent (for males) and 40 percent (for females) of the value of the subsidy.

[22] It is never easy to make a perfect prediction about seasonal needs for food in any country. It is reasonable, however, to expect even poor people to anticipate seasonal shortfalls and to plan for them. Even assuming that the poor do anticipate off-season hardship, they may not be able to protect themselves fully, owing to a fall in their purchasing power and hence effective demand. Therefore, in off-seasons, work programs may provide the poor with much needed purchasing power, which will protect them from seasonal undernourishment.

[23] Moreover, it is worth stressing that some disincentive effects—such as discouraging family and community thrift—are not delivery system issues. Disincentives both raise costs and hamper the objectives of the program regardless of the choice of delivery model.

[24] Under some private delivery models, information and actions are often hidden and so are not available to the public, making it difficult to compare the models.

Annex A Analytical Work on Poverty and Summaries of Completed Poverty Assessments, Fiscal 1996 and 1997

The Bank's analytical work on poverty enhances our understanding of the nature and extent of poverty in a country. It is also the basis for dialogue with governments and donors and is the foundation on which an effective country assistance strategy for poverty reduction is built. Poverty analysis, which is often undertaken in collaboration with governments, donors, nongovernmental organizations (NGOs), and other stakeholders, helps define a more effective and responsive program for poverty reduction and enables better targeting of interventions for the poor.

Analytical work on poverty is undertaken through a wide variety of instruments. These include public expenditure reviews, country economic memoranda, sector analyses, research papers, and poverty assessments. Since 1990, poverty assessments have been a principal vehicle for synthesizing information from various sources, for identifying key issues, and for recommending a coherent strategy for reducing poverty. Poverty assessments provide details on who the poor are and why they are poor. On the basis of this analysis, they recommend actions for addressing the needs of the poor. The issues covered span a wide spectrum and reflect the circumstances of individual countries.

Poverty Assessments

Twenty-two poverty assessments (17 additional countries and 5 updates) were completed in fiscal 1996 and 10 (8 additional countries and 2 updates) in fiscal 1997, bringing the total of completed assessments to 94 (83 countries and 11 updates; see table A-1). These poverty assessments cover approximately 90 percent of the world's poor. The majority of assessments in the last two years were for countries in Sub-Saharan Africa and Europe and Central Asia. Scheduling initial and follow-up poverty assessments is a continuous process, and several assessments, including those for new member countries, have been added to the original fiscal 1992 schedule. Progress is being made toward completing the remaining 22 first-round poverty assessments and 9 scheduled updates by fiscal 2000. Of these, 20 (15 assessments and 5 updates) are scheduled for fiscal 1998. Management issued a note to all staff in May 1996 reaffirming the Bank's commitment to completing initial poverty assessments and carrying out follow-up assessments as appropriate.

Notwithstanding the progress made in completing poverty assessments, delays continue to be a source of concern. In hindsight, the original targets set in fiscal 1992 for completing poverty assessments were not realistic, given the paucity of information, the sensitive nature of poverty assessments, the time needed to get country commitment, and the resource implications. Some of the delays were, in fact, the result of decisions to work for a better product by collecting more data and consulting local communities. Of the 34 poverty assessments originally scheduled to be completed in fiscal 1996, 12 (35 percent) were delayed, compared with fiscal 1995, when 18 (45 percent) of the 40 originally scheduled poverty assessments were delayed. For fiscal 1997, a total of 18 poverty assessments were planned, of which 3 were dropped from the schedule and 5 (36 percent) were delayed.[1] Reasons for delays in completing poverty assessments in fiscal 1996 and 1997 are similar to those of earlier years: civil war (Angola and Burundi), upcoming elections or change of government (Albania, Bulgaria, Romania, and Thailand), delays in completing analytical work (Burkina Faso, Papua New Guinea), postponed discussions with the government (Algeria, Côte d'Ivoire, Djibouti, and Mexico), and modifications in the Bank's work program due to changing priorities or staff or budget constraints (Chad, Costa Rica, Gabon, and Guinea).

Although the quality of poverty assessments com-

pleted in fiscal 1996 and 1997 varied, overall, the depth of analysis improved. Increased use of participatory surveys contributed to a more comprehensive and realistic picture of the needs and perceptions of the poor. For both fiscal 1996 and 1997, about half the poverty assessments used qualitative, participatory surveys to supplement household survey data. Nevertheless, gaps persist in the recommendations on how to improve specific macroeconomic policies by enhancing their positive effects or minimizing their potential negative effects, in light of the analysis of the impact of these policies on the poor. Discussion of the poverty strategy has usually focused on human capital development and on agricultural policies. Poverty assessments have varied in their treatment of such topics as safety nets, gender, and poverty monitoring.

Content of Poverty Assessments

Poverty assessments start out by identifying the poor, through poverty profiles that document the incidence, depth, and severity of poverty.[2] Information on correlates of poverty such as education, age, gender, ethnicity, geography, family size, and employment status also helps identify the poor. The assessments then analyze the causes of poverty, differentiating between the chronic and the transient poor. The most common causes of poverty include lack of capabilities of poor people, in part due to inadequate social services; lack of opportunities owing to low levels of capital; incentive and regulatory barriers and distortions; and consequences associated with macroeconomic shocks and policies or natural disasters. On the basis of the analyses, poverty assessments provide recommendations for a coherent strategy aimed at reducing poverty, consistent with the Bank's approach to poverty reduction.

Who Are the Poor? Poverty Profiles

Poverty profiles summarize the most important economic, demographic, and social characteristics of the poor. This knowledge forms the basis for the development of strategies for addressing the specific needs of different groups of the poor. Poverty profiles depend on the availability of data, so the issues covered in the profiles for the fiscal 1996 and 1997 poverty assessments varied. In general, the comprehensiveness of poverty profiles continues to improve, compared with earlier assessments. In fiscal 1996 and 1997, all poverty profiles defined at least one poverty line (compared with *almost* all in fiscal 1995), and approximately 80 percent of the profiles added one or more poverty lines to distinguish between the poor and the extremely poor, urban and rural poor, and geographic regions (the same proportion as in fiscal 1995). In addition, three-quarters of the poverty profiles in fiscal 1997 and about half of those in fiscal 1996 (compared with almost two-thirds in fiscal 1995) supplemented the headcount index with the poverty gap index and the severity index (see box A-1). The supplemental data provided a better understanding of the nature of poverty, forming the basis for a more accurate policy response. Furthermore, all of the poverty assessments in fiscal 1997 and the majority of those in fiscal 1996 included other broad social and economic indicators of poverty, such as school enrollment, mortality, wage rates, terms of trade, and producer prices.

Approximately half of the poverty assessments completed in fiscal 1996 and 1997 used participatory methodologies to strengthen the analysis (compared with only a few in fiscal 1993, a quarter in fiscal 1994, and about half in fiscal 1995). For example, the participatory assessment in Ecuador found that street crime, violence, and lack of childcare facilities greatly inhibited women's ability to work away from home. It recommended installing street lighting, posting guards on public buses in the evenings, and reopening childcare networks in urban areas to allow women to go to work. The Madagascar participatory assessment drew attention to security problems that might otherwise have gone unnoticed by policymakers. Interviews covering more than 2,500 households revealed that the activities of armed gangs that pilfered materials, equipment, and furniture from schools and stole crops and livestock from farms were affecting school attendance and agricultural productivity. The Costa Rica participatory assessment found that even though the country's health care coverage is among the highest in the region, the poor customarily wait for extended periods for treatment and are generally treated rudely by health service personnel. Improving health service delivery, as noted in the poverty assessment, will address these problems and will likely have an equity impact. According to the participatory assessment in Gabon, health and education services are the primary concerns of rural dwellers, while urban households cite isolation from facilities, lack of basic services, and unhealthy living conditions as their most important

concerns. In response to this, the proposed antipoverty campaign in Gabon includes providing better access to education for the poor by reducing the cost of schooling, making drugs available and affordable for the poorest groups, expanding safe water supply, extending basic social services to isolated areas, and improving urban sanitation conditions through the use of labor-intensive technologies. In these instances, participatory assessments enhance the analysis by capturing the poor's own perception of the poverty situation and help policymakers design programs that are more responsive to their needs.

Why Are They Poor? Identifying the Causes of Poverty

While some poverty assessments provided comprehensive discussions of the causes of poverty (particularly with respect to the impact of past macroeconomic and sector policies on the poor), several others fell short on these details. In analyzing the causes of poverty, three types of poor people should be clearly distinguished:

- The chronic poor who are willing and able to work but who are unable to participate in the economy because of lack of opportunities (for example, in the absence of adequate labor-absorbing growth), because of barriers or distortions in the economy that prevent participation, or because of low levels of human capital development. For example, distortions and discriminatory policies in the agricultural sector, which employs the majority of the poor in Yemen, is a major cause of poverty. In Pakistan inadequate human capital development, particularly with respect to inadequate access to education, health, and family planning services, aggravates the poverty situation. Despite the rapid growth in Thailand, low-skilled workers have low levels of participation in formal sector opportunities, a circumstance that has been associated with rising income inequality.
- The chronic poor who are unable to work, usually because of disability, old age, or long-term illness. The Mongolia poverty assessment identified persons in this group as children who had lost one or both parents, disabled persons, herders with few animals, the elderly, and female-headed households. With respect to the last group, the situation has worsened with the elimination of the government's generous child benefits.
- The transient poor, whose income-earning capacity has declined as a consequence of short-term events such as structural adjustment or a natural disaster. In Lesotho the severe droughts of 1991–92 reduced the real income of the poor by more than 5 percent. The economic transition, coupled

Box A-1. Poverty measures

The most commonly used measures of poverty in the fiscal 1996 and 1997 poverty assessments are the *headcount index*, the *poverty gap index*, and the *poverty severity index*. These indices are completely defined by $F(y)$, the cumulative distribution of income, and z, an estimate of the poverty line: $P = F(z)$.

More specifically, the three measures are special cases of the Foster-Greer-Thorbecke (FGT) class of additive poverty measures and are formally given by:

$$(A\text{-}1)\quad P_{\alpha} = \frac{1}{n}\int_0^z \left(\frac{1}{z}(z-y)\right)^{\alpha} f(y)dy$$

where $f(y)$ represents the distribution of income, z is the poverty line, and n is the total population.

The headcount index (P_0), q/n, the proportion of the population that falls below the poverty line, is derived from equation (A) when $\alpha = 0$, where q gives the number of individuals that consume below the poverty line. But the headcount index is not sensitive to changes in the distribution of income below the poverty line. For example, the headcount index would be unchanged if the income of an extremely poor person increased relative to the poverty line or if the poorest person in the distribution became relatively more poor. Another measure that is sensitive to the depth of poverty, P_1, the poverty gap index, $[(z - \mu_z)/z]^*(q/n)$, is derived from equation (A) when $\alpha = 1$. It gives the mean proportionate consumption gap of the population, where μ_z is the mean consumption of individuals below the poverty line. However, even the poverty gap index has a shortcoming in that it gives equal weight to the consumption deficit of all poor people. Another measure that would capture the severity of poverty can be derived by weighting the consumption shortfall (poverty gap) of the poor by the poverty gap itself. The poverty severity index, P_2, obtained from equation (A) when $\alpha = 2$, which gives the weighted average of the poverty gaps where the weights are the gaps themselves, yields a more distributionally sensitive measure.

with the recession and structural changes, has exacerbated the situation of the poor in Hungary and Ukraine. In Azerbaijan the war with Armenia has generated a substantial number of internally displaced persons, who are twice as likely to be very poor.

What Can Be Done to Help the Poor? The Poverty Reduction Strategy

Based on the findings of the analysis, the poverty assessments recommend a poverty-reducing strategy specific to the needs and priorities of individual countries. Allowing for differences in country situations and the government's commitment to poverty reduction, poverty assessments generally propose actions that are consistent with the Bank's poverty reduction strategy: creating labor-absorbing growth, developing human capital, and providing effective safety nets.

Some fiscal 1996 and 1997 poverty assessments were more comprehensive than others in translating their findings into a coherent strategy that addressed those elements of the Bank's poverty reduction strategy that were relevant to their country situation. The poverty assessment for Tanzania was exemplary in incorporating all the elements of the Bank's poverty reduction strategy in its recommendations. Proposals with respect to pro-poor growth policies focused on rural and agricultural development; human capital development initiatives emphasized allocating more resources for basic health, primary and secondary education, and safe drinking water once the fiscal situation improved; and targeted programs included labor-intensive infrastructure projects and income-generating programs that would not crowd out the extensive informal safety net.

The Azerbaijan poverty assessment proposed a comprehensive poverty reduction strategy to overcome the decline in output and address structural rigidities in agriculture and industry. Because major restructuring is needed in Azerbaijan, the assessment recommended accelerating the privatization program for small and medium-size enterprises, simplifying administrative procedures for establishing and operating such enterprises, and expanding light industry to generate employment. In agriculture, attention would be given to the provision of inputs (including credit), to marketing arrangements, and to price incentives. Human capital development involved improving the poor's access to preventive and public health programs, including food fortification; providing a basic package of medical services; and facilitating community school financing efforts and setting up national policies for enhanced coverage and quality of education. Targeted programs involved urgent social assistance to vulnerable groups and continued food aid and humanitarian assistance to internally displaced populations.

Macroeconomic and Sectoral Policies

Broadly based, labor-demanding growth, the first element in the Bank's poverty reduction strategy, is an important consideration for every country's program to reduce poverty. All the poverty assessments in fiscal 1997 and all but one in fiscal 1996 analyzed the impact of macroeconomic and sector policies on the poor. Approximately three-quarters of the assessments in fiscal 1997 and about two-thirds of those in fiscal 1996 (the same as in fiscal 1995) followed up with specific recommendations on how to improve macroeconomic policies by enhancing their positive effects or minimizing their potential negative effects on the poor. For example, the Yemen poverty assessment provided an in-depth analysis of the short- and medium-term implications of economic policies on the poor and offered recommendations for improving these policies in response to the needs of the poor. For the short term, the report recommended eliminating the costly universal subsidies, especially on wheat. This measure could be complemented by improving the import financing system to ensure the continued supply of wheat after market liberalization. To compensate for downsizing the largely ineffective formal safety net, expansion and institutional development of the NGO sector's capability to deliver assistance to the poor should be supported. For the medium term, the report recommended revisiting the composition of the recurrent budget, which is skewed away from expenditure categories that encourage growth. Public investment, which declined sharply following unification, will also have to be rationalized to reflect sectoral and regional priorities. Because the agriculture sector is critical for improving the incomes of the poor, priority actions include improving research and extension services (fertilizer and seeds), improving physical infrastructure in the rural sector, and instituting policies and incentives to reverse rural practices that deplete water resources and deforestation. The Côte d'Ivoire poverty assessment recommended accelerating key reforms that would not only lead to higher growth but also be pro-poor. These included increasing produc-

tivity in the informal sector, reducing the cocoa tax (the burden of which fell on a relatively weak economic group), reducing taxes on goods consumed by the poor, and putting in place incentive policies that would lower transaction costs and bring greater efficiency and competition to the coffee, cocoa, and other agricultural markets.

The macroeconomic analysis in the poverty assessments of countries in Europe and Central Asia focused on how to facilitate higher growth and ensure that the poor and vulnerable were included in the growth process. The emphasis in transition economies is on labor market developments and safety nets. The reintegration of those who may have fallen out of the system because of the transition to a market-oriented economy is of primary concern. Recommendations in these countries often included the initiation of labor retraining programs, so that workers could acquire the necessary skills to meet new requirements, and the provision of social assistance to unemployed workers and other vulnerable groups.

How public expenditures are reaching the poor is another important consideration, particularly with respect to the provision of basic economic and social services such as primary health care, basic education, safe water supply, and rural infrastructure. All of the fiscal 1996 and 1997 poverty assessments discussed some aspect of how effectively public expenditures were reaching the poor. The majority also proposed recommendations on how to ensure that public spending is pro-poor.[3]

A good discussion of public expenditure issues was contained in the fiscal 1996 poverty assessment for Tunisia. The analysis revealed that public spending is not equitable and is not well targeted to the poor. The bottom 20 percent of the population receives less than 15 percent of the total expenditures, while the top 20 percent receives almost 29 percent. Based on these findings, the report recommended reallocating public spending so as to minimize inequities. It called attention to the need to reallocate funds to improve the quality of basic health services, increase student retention and improve the quality of basic education, and expand basic infrastructure services (potable water, electricity, and housing) for the poor. Measures to improve the targeting of subsidies to the truly needy included using recent household survey data to improve the screening process in identifying recipients of direct income transfers. Cost-recovery measures were suggested in some areas to achieve more efficient use of public funds. The poverty assessment for Costa Rica found that in 1992 only about 30 percent of government social expenditures was spent on poverty amelioration and basic priority programs, while 58 percent was spent on nonbasic programs such as tertiary medical care and university education. In addition, analysis of the distributive impact of government expenditures for education, health, nutrition, social security, and housing programs shows a steady decline in the benefits going to the poor and a steady increase in such benefits going to the richest quintile between 1983 and 1992. The report recommended developing effective mechanisms and geographic targeting to ensure that financial resources effectively reach the poorest populations and introducing cost-recovery mechanisms for tertiary health and education programs.

Human Capital Development

Inadequate human capital development—the target of the second element in the Bank's poverty reduction strategy—is a major cause of chronic poverty. Lack of education and ill health perpetuate poverty. All the poverty assessments in fiscal 1996 and 1997 addressed human capital development issues adequately. In most instances, recommendations called for improving the poor's access to basic social services and the quality of these services and reallocating public expenditures toward primary health care and basic education.

Specific recommendations included investing in primary education for indigenous children through, among other measures, expanding bilingual schools, with special emphasis on increasing the enrollment and attendance of rural indigenous girls (Bolivia); increasing public spending to provide quality health care (Eritrea); incorporating measures to improve childcare provisions in social assistance programs (Hungary); exempting children under age 5, the elderly, and the disabled from user fees and introducing a free or low-fee package of basic health services (Lesotho); improving access to and the quality of primary education, especially for girls, investing in functional literacy programs, and revamping vocational education programs to fit market opportunities (Togo); increasing access to early childhood care, reducing the quality gap in primary schools, reforming secondary education, increasing cost-recovery mechanisms, and improving the ties among parents, communities, and students (Trinidad and Tobago); introducing nutritional food fortification with essential basic minerals and vitamins in bread, flour, milk, and juices (Azerbaijan); supporting need- and merit-

based scholarships in tertiary education for the poor and rehabilitating at least 10 percent of primary health care facilities (Romania); and improving the quality of schooling for children ages 6–10 while ensuring proper enforcement and tightening of existing laws to reduce child labor practices that have prevented children from attending school (India).

Social Safety Nets

Safety nets constitute the third element in the Bank's poverty reduction strategy. Safety nets protect the poor and vulnerable who are unable to take advantage of income-earning opportunities (the chronically poor and those who are temporarily poor as a result of natural disasters or economic shocks) during normal times, as well as during periods of economic reform and adjustment. Depending on country circumstances and needs, a wide range of safety net instruments are available. Income-generating programs include labor-intensive public works programs, food-for-work programs, credit-based self-employment programs, and retraining programs. Non-income-generating programs include nontargeted, in-kind transfer programs (general consumer subsidies, public food distribution, nutrition programs), targeted cash or in-kind transfer programs (food stamps, vouchers, cash compensation in lieu of food subsidies), and cash transfers (child or family allowances). Although almost all the fiscal 1996 and 1997 poverty assessments analyzed existing safety net structures, some failed to provide concrete recommendations on how to improve the effectiveness of these structures in reaching the poor. For the transition economies, the discussions on safety nets focused on how to improve the targeting of social programs to help newly vulnerable groups and how to ensure the fiscal sustainability of safety net systems. In Africa the focus was on developing effective mechanisms for targeting the poor and appropriate programs of assistance to supplement the informal safety nets that exist within extended families and local communities.

Of the fiscal 1996 and 1997 poverty assessments, those for Azerbaijan, Hungary, Mongolia, Niger, Romania, and Ukraine were particularly noteworthy for their comprehensive treatment of safety net issues. In Mongolia the existing social safety net system is a blend of traditional, informal structures and the formal, government-funded safety net. Assistance within the private, extended family safety net takes the form of cash remittances and exchange of animals. Owing to the economic downturn since the early 1990s, there has been an increasing need for publicly funded social assistance to support the poor who can no longer rely on the informal support system. The report pointed to the immediate need to provide the poor with a combination of targeted transfers and income-generating public works programs within the constraints of the funds available. The recommendations also included increasing the share of transfers going to the very poor. Based on the analysis of safety nets, the poverty assessments for Azerbaijan and Niger recommended improving targeting to reduce leakages in social assistance programs, involving local communities in identifying the poorest households and in selecting and implementing safety net programs to reduce costs and simplify implementation, and establishing good monitoring systems to assess impact and promote effective management.

Gender Issues

Only about half of the poverty assessments in fiscal 1997 and two-thirds of those in fiscal 1996 (compared with half in fiscal 1994 and three-quarters in fiscal 1995) included an adequate analysis of gender issues and provided gender-specific recommendations. The reports analyzed, to varying degrees, the extent and nature of poverty among women; the economic standing of female-headed households; gender differentials in earnings, school enrollment, and literacy; gender discrimination, including legal, regulatory, and cultural barriers faced by women; women's access to basic social services such as primary health care and basic education, as well as to productive resources such as land and credit; and female participation in the formal labor market. In general, there was significantly more analysis of gender issues in health and education than in agriculture, transport, credit, and labor markets. The problem was not so much a lack of interest as an absence of gender-differentiated information and data for the various sectors.

The poverty assessments for Bolivia, Ecuador, Côte d'Ivoire, and Guinea were exemplary in their coverage of gender issues. For example, the Bolivia poverty assessment found that indigenous females in rural areas have the highest illiteracy rate, lowest educational attainment, highest incidence of maternal mortality, and highest fertility rate. Recommendations included additional analysis to de-

velop interventions such as scholarships, vouchers, and school lunch programs to encourage school enrollment and attendance of rural indigenous girls; reallocation of public expenditures from tertiary to primary education; and development of a comprehensive health strategy and program. In addition, to facilitate the access of indigenous women to the formal labor market, labor laws and the family code that discriminate against women would be modified. The poverty assessment for Guinea identified numerous constraints faced by women, particularly in the labor and credit markets. To overcome these barriers, the report recommended enhancing girls' access to basic education and women's access to vocational training. The report also recommended providing access to financial services for women to enable them not only to increase the productivity of their current enterprises but also to expand into activities traditionally dominated by men. The poverty assessment for Côte d'Ivoire noted four factors that combined to marginalize poor Ivorian women: inadequate control by women over their time and labor, limited access to productive resources, insufficient human capital accumulation, and lack of voice in public policy decisions. To address these constraints, the report recommended explicit recognition of gender issues in policy decisions as well as actions to invest in women's human capital, to improve productivity by increasing women's access to financial services (especially in agriculture) and by redirecting agricultural research and extension to food crops, and to ease women's time and labor constraints by investing in water supply, transport, fuelwood production, and labor-saving technology in agroprocessing.

Monitoring Poverty

Poverty monitoring is essential to determine whether poverty is increasing or decreasing and how different groups are affected. With this information, policymakers can respond with appropriate policies and programs to address the changing situation. Although most poverty assessments pointed to the need to develop better data sources, slightly less than half of the poverty assessments in fiscal 1997 and slightly more than half in fiscal 1996 (the same as fiscal 1995 and up from half in fiscal 1994) made specific recommendations on how monitoring could be improved. Recommendations in the majority of cases included establishing and institutionalizing monitoring systems, building the capacity of statistical offices, conducting surveys on a regular basis, and using beneficiary assessments to supplement data. The India poverty assessment update stressed the need for better access to existing data resources that remain highly restricted.

The Togo poverty assessment presented a comprehensive action plan on how to improve the overall poverty monitoring system. It recommended a comprehensive household budget survey, multidisciplinary in approach and repeated every five years, to obtain data on household consumption and intrahousehold allocations; regular collection of national nutritional indicators; smaller, more focused surveys at least once a year to update and complement data from the household budget survey, using both qualitative and quantitative techniques; and socioeconomic analysis, complemented by the analysis of cultural variables, which are likely to play a major role in shaping vulnerability and in determining the appropriateness and effectiveness of poverty alleviation interventions. As discussed in chapter II of this report, more efforts are needed on the part of governments, the Bank, and other donors to improve the monitoring of poverty in all member countries.

Table A-1: Poverty assessment summaries, fiscal 1996 and 1997

Fiscal 1996		*Fiscal 1997*	
Armenia*	1996	Albania*	1997
Belarus	1996	Azerbaijan*	1997
Bolivia (update)*	1996	Congo, Rep. of*	1997
Ecuador (update)	1996	Costa Rica (update)	1997
Eritrea*	1996	Côte d'Ivoire*	1997
Estonia	1996	Gabon	1997
Hungary	1996	Guinea*	1997
Lao PDR*	1996	India (update)*	1997
Lesotho*	1996	Romania	1997
Madagascar*	1996	Thailand	1997
Malawi (update)*	1996		
Mongolia*	1996		
Niger*	1996		
Nigeria*	1996		
Pakistan (update)*	1996		
Philippines (update)	1996		
Tanzania*	1996		
Togo*	1996		
Trinidad and Tobago	1996		
Tunisia	1996		
Ukraine	1996		
Yemen, Republic of*	1996		

* IDA borrower.

Note: The assessment summaries were prepared by World Bank country teams. They are based on completed poverty assessment reports (see Annex C for full report titles and document numbers). A few draw on other country economic and sectoral work.

Poverty Assessment Summaries, Fiscal 1996 and 97

Albania

Poverty Profile

The absence of nationwide, comprehensive household data renders poverty analysis difficult. The estimates that can be made from partial data sets must be interpreted with the greatest caution. The best estimates that can be derived from available information suggest that between 25 and 30 percent of the total rural population of 1.9 million and around 15 percent of the total urban population of 1.3 million are in poverty relative to the rest of the country's rural and urban populations.[4] These figures should be taken as broad minimum estimates of poverty. Poverty is apparently quite shallow in Tirana, the capital, but elsewhere much of the poverty may be deep, with incomes falling far short of a minimally acceptable standard and people struggling to meet basic needs for food, clothing, and heating. Many other people, if not suffering from immediate income insufficiency, are vulnerable to poverty and are threatened by poor infrastructure and out-of-reach social services.

The main correlates of *rural poverty* are farm size, livestock holdings, and off-farm income from wage employment and remittances. About one-quarter of the rural population live on farms that are too small to provide a modest level of subsistence. The majority of these families live in the upland areas and the mountains and have farms of less than half a hectare. The poorest decile live on an agricultural income of less than 6,568 lek (equivalent to US$70) a year and are unable to meet even their staple food requirements year round. They depend on the provision of subsidized wheat and flour through the winter months and on cash transfers (pensions and social assistance).

Nonfarm income, critical for many farming households, represents around one-fifth of total rural income. The most widespread sources of nonfarm income are pensions and social assistance, but their value is small. The most important to recipient families are remittances, followed by wage employment, nonfarm business income, and unemployment benefits.

Regardless of the poverty line used, *urban poverty* has some distinct characteristics.

- Poorest of all, in both incidence and depth, are households with an unemployed head, typically male, in his early 40s, and with little or no formal education.
- Next are the three-generation households headed by a pensioner, often a widow. Although pensioners are not among the poorest, the presence of unemployed adult children and dependent grandchildren in the household makes them poor.
- Households headed by a low-wage-earning male constitute the third largest group in poverty. These household heads are about age 50, have little or no education, and are employed or self-employed in a low-paying job.
- Families with three and more children are especially vulnerable to poverty.
- Households that have no regular source of market income and rely on social cash transfers are typically very poor. The social assistance program plays a key role as a social safety net, but the program seems to suffer from targeting errors and very low payment levels.

Private transfers, especially remittances from abroad, are a critical source of income for urban households. Households benefiting from remittances are more likely to be nonpoor, if not affluent.

Incentive and Regulatory Framework

Albania has made tremendous progress in the past three years, recording annual economic growth rates close to 10 percent. This reflects major progress in stabilization and structural adjustment, especially in the privatization of much of the country's productive resources (land and enterprises) and liberalization of prices, trade, and foreign exchange. Growth, starting from a low base, has emanated primarily from the private sector, especially agriculture, construction, and services. In contrast to many former centrally planned countries, Albania has rapidly re-

duced the role of the state. Agriculture, which accounts for 56 percent of GDP is almost entirely in the hands of the private sector. Construction, transport, trade, and services, heavily financed by remittances from abroad, are also largely within the private domain. Even industry is increasingly dominated by emerging small private sector companies.

Public Expenditures

Substantial demands are placed on the public budget, yet the country's tax base is unlikely to improve markedly in the next few years. For this reason, and to meet its growth-promoting objectives, the government will have to be selective in the areas it finances and in the use of donor financing. Policies to encourage private investment are important. Investments that promote labor-intensive growth should receive priority, given the country's huge labor pool.

From the perspective of poverty alleviation, a number of areas call out for investment: health, education and training, urban infrastructure and services (water and sanitation, solid waste), roads and agricultural support services in high-potential agricultural areas, and small business services and credit programs. It is not clear that the 1996–98 public investment program adequately reflects these priorities, especially with regard to education. The investment program gives high priority to transport, infrastructure (water and sewerage), energy, and agriculture, which together account for up to two-thirds of all investments (compared with around half over the past two years). In contrast, planned investment in education is 6 percent of the investment budget, as against 10 percent in 1994 and 1995, and health drops to 7 percent from 9 percent. As for transfers, pensions, unemployment benefits, and social assistance all remain central to poverty prevention and alleviation, but caution needs to be exercised to ensure that the appropriate incentive systems remain intact, that dependency on the state does not develop, and that employment is not overtaxed to fund these transfers.

Social Services

Good health and education are widely recognized as playing a key role in raising individual living standards and, in particular, as being an essential element of a poverty reduction strategy. As was typical of communist regimes, Albanians in the past enjoyed wide access to public services, free of charge. As a result of this policy, and despite rapid population growth, Albania entered the transition with generally good education and health indicators across-the-board for its per capita income level. In the post-1990 period there has been some deterioration in the education and health status of the population. School enrollment rates have fallen, and rates of infant mortality and of adult morbidity due to infectious diseases have increased. Data on the incidence of these deteriorations are not available, but in all likelihood low-income families in both rural and urban areas are suffering disproportionately. Although the worsening is in large part a reflection of the general economic environment, some of it can be traced to declining coverage and quality of public services—which are easier to address through direct intervention. This deterioration can, in turn, be related to falling public expenditure on health and education. These negative trends need urgent attention; measures should be taken to ensure their reversal, especially as they affect low-income families.

Safety Net

Since its inception in 1993, the social assistance program (Ndhime Ekonomike) has played an important role in supplementing the incomes of many Albanian families, especially those who have little arable land and are among the long-term unemployed. At its peak, about 20 percent of families were receiving social assistance. In parts of rural Albania benefit incidence is as high as 50 percent. General rural indicators, such as average farm size, have been used with considerable success for program targeting; other indicators, such as long-term unemployment, have been less successful.

Some households above the poverty line are receiving social assistance, while some households under the poverty line are not. This is a particular problem in urban areas where income can be "hidden" and eligibility is more difficult to assess. Perfect targeting is rarely achieved with such programs, but improvements can be made. Measures adopted over the past year or so (abolition of the minimum payment, partial retention of program savings by local authorities, an assessment of living conditions, and establishment of an inspectorate) should reduce inclusion and exclusion errors. In the long run, household surveys should permit closer monitoring of assistance recipients, as well as the identification of household characteristics associated with poverty, thus making further fine-tuning of the program possible.[5]

Poverty Strategy

Because of the pervasiveness of low incomes and the continuing population growth, sustained economic growth is the key to poverty reduction in Albania. Since most of the poor (and nonpoor) depend on income from labor—from work on their own land, from wages, or from self-employment—the optimal growth pattern is one that promotes broadly based rural development and urban employment and self-employment. This pattern, together with emigration for work, is not dissimilar from the growth path that Albania has followed in the past three years. Rapid growth, especially in agriculture, construction, services, and small businesses, has been fueled by investments stemming from remittances (private capital flows from abroad) and concessional aid—capital sources which cannot be depended on for the future. Although every effort should be made to promote the continuation of these flows, new sources of capital will be needed to underpin a dependable and sustainable growth path for the future. Recent improvements in private and public domestic savings augur well in this regard.

Rural development. Agricultural growth will continue to be the driving force behind rural development, but, increasingly, off-farm income-earning opportunities will be key. Although the coastal lowlands and the eastern plateau are particularly fertile and well-watered, Albania has limited arable land. Parcels need to be consolidated to facilitate more efficient use of land and time and to give farmers more security regarding crops and livestock. To facilitate this, greater administrative effort is needed to finalize the titling of land so that land sales can occur.

To improve the performance of the rural sector, both as a source of growth and a vehicle for reducing poverty, it is necessary to encourage private investment for support services, especially marketing, in the geographic areas with the greatest growth potential (the coastal plain); provide farmers with credit beyond what the Albanian Development Fund (ADF) can do through the agricultural bank or another financial intermediary;[8] remove regulatory impediments to the growth of labor-intensive businesses affecting on-farm and off-farm employment linked to agriculture; support public investments in agricultural infrastructure, mainly in high-growth-potential areas, to foster private investment in this sector; and increase public investment in education and training for rural households, especially in remote areas. Social transfers will be critical for certain groups of the population: the elderly, the sick, the unemployed, those with little or no education, and those living in the poorest areas.

Urban development. Rural-urban migration has already swelled the ranks of the urban population. To respond to the needs of individuals who have migrated to the cities and have no secure land tenure there, the government should adopt a relatively low-cost and rapid means for clarifying landownership and registering properties and initiate temporary registration to help migrant households receive adequate health care, register their children in public schools, and apply for state jobs. It is important to highlight the need to establish or build on continuing efforts carried out with the private sector and to multiply initiatives in support of small business development that affect urban households.

Urban environmental problems, which will increase with greater population pressure, are threatening Albania's cities. Poor sanitation and waste management will undoubtedly get worse unless urban services are upgraded. Major investments in water supply and sanitation are already under consideration in Elbasan, Fier, and Lezha, and investments should also be made in urban services such as solid waste management and drainage. In designing these improvements and services, the focus should be on maximizing opportunities for local employment; involving households in improving neighborhood services to reduce costs; monitoring health conditions; and providing environmental education. To make urban services and utilities accessible to poor households, pricing policy should be sensitive to low urban incomes.

Statistical System

The absence of nationwide, comprehensive household data renders poverty analysis difficult and will continue to hamper the ability to develop an effective poverty reduction strategy for Albania. Moreover, the situation is very fluid, with populations moving from rural to urban locations, and into and out of the country, and with businesses springing up one day and failing the next. A key recommendation of this report is that Albania launch a nationwide survey of household incomes and expenditures to help better quantify the extent of poverty, characterize the poor, understand the importance of new sources of income, and aid public policy and program design.

Armenia

Poverty Profile

Armenia experienced an extremely sharp fall in output and a near collapse of its economy following the breakup of the Soviet Union and the blockade that resulted from the conflict over Nagorno-Karabakh. The drop in output of more than 60 percent between 1992 and 1994 resulted in the collapse of household incomes and living standards as wages failed to keep pace with hyperinflation, subsidies on energy and food were reduced, and the decline in government revenue caused drastic cuts in social transfers, essential services, and maintenance of infrastructure. Although positive growth in 1994 and 1995 has allowed a slight recovery, real wages are still only about one-fifth of what they were in 1992. Poverty has become widespread, and inequities have been growing rapidly. There is no official poverty line in Armenia. For this profile, relative poverty lines are used, based on the 1994–95 household expenditure survey. Very poor families were defined as those with expenditures between 15 and 40 percent of the median. Thirty-one percent of urban families were found to be poor, of which 20 percent were very poor; 25 percent of rural families were found to be poor, of which 12 percent were very poor. Inequalities in the distribution of income are high by international standards and in comparison with other countries of the former Soviet Union (FSU). Various surveys conducted in 1995 yield a Gini coefficient a little over 0.50.

Surveys carried out in 1994 and 1995 revealed unusual characteristics of poverty at that time and pointed to difficulties in identifying good indicators of poverty for targeting social transfers. No strong relation was found between poverty and age, gender, unemployment, level of education, family size, stock of consumer goods, or housing attributes. The factors most strongly related to poverty, especially in urban areas—lack of extended family support, private remittances, or informal sector earnings—are extremely difficult to measure; they may also cause families to move into or out of poverty very quickly. Land privatization has provided a safety net for the majority of rural families; poverty is less serious in rural than in urban areas, and most of the severely poor in rural areas are those without access to good-quality agricultural land or the means to farm it. Location is one of the strongest correlates of poverty and potentially one of the most useful for policy and targeting purposes. The worst-off regions were in the earthquake zone and in border areas. Differences in climate, elevation, irrigation levels, and soil quality are reflected in the extreme dispersion of poverty rates by village. Considering the rapidly changing conditions in Armenia, it is likely that the poverty profile will change quickly with the restructuring of the economy.

Incentive and Regulatory Framework

The breakup of the Soviet Union left Armenia, which became independent in 1991, with a distorted, inefficient, and obsolete national economy strongly affected by the collapse of the central planning system and the disruption of traditional trading arrangements within the FSU. The consequent economic and social problems were compounded by the devastation caused by the 1988 earthquake and by the virtual economic siege that resulted from the political conflicts in Georgia and the dispute with Azerbaijan over Nagorno-Karabakh. These conditions precipitated a catastrophic decline in output accompanied by hyperinflation. Real output in Armenia declined 52 percent in 1992 and 15 percent in 1993. Following the introduction of a national currency (the dram) at the end of 1993, government policies have succeeded in stabilizing the economy. The comprehensive reform program introduced early in 1994 included tight financial policies, price liberalization, privatization, tax reform, and liberalization of the exchange and trade system. Privatization of land had already been achieved: Armenia embarked on land privatization in 1991—the first republic of the FSU to do so—and more than 90 percent of the land was in private hands by 1994.

The living standards of the population have been hit by the collapse in real wages, compounded by the removal of subsidies on essential goods and by drastic cuts in spending on social services. Although the government raised the minimum wage a few times during 1992–94, real wages declined 60 percent in 1992, 42 percent in 1993, and a further 76 percent in 1994.[7]

Another problem for the poor was the progressive removal of subsidies, prompted by fiscal pressures. For the living standards of the poor, the most significant reductions in food subsidies were those on bread, since many households had increased their consumption of bread in order to survive on low wages. Com-

pensation was introduced but was poorly targeted. The effect of the suppression of energy subsidies was cushioned to some extent by the major support of humanitarian agencies in kerosene distribution and by failure to enforce payment of energy bills. Increases in the cost of transportation, however, were felt severely.

Public Expenditures

The sharp decline in tax collection since independence (falling to 12 percent of GDP in 1996) has forced the government to drastically cut public expenditures. Capital expenditures and expenditures on wages, in particular, have been reduced considerably. Civil service wages are extremely low and are insufficient to cover even the basic food consumption of a household. Meanwhile, the fiscal deficit, estimated at 9.1 percent of GDP in 1996, is still very high and is unsustainable. Social expenditures have been severely curtailed. Government expenditure on health is estimated to have fallen from 8 to 3 percent of total government expenditures and from 5 to 1 percent of GDP between 1992 and 1994, a period when GDP fell steeply. The consequences have been little or no maintenance of the country's abundant medical facilities, severe shortages of essential equipment and supplies, collapse of the physician-staffed ambulance services, on which the poor were particularly dependent for nonemergency as well as emergency care, and drastic cuts in the salaries of medical personnel. The allocation of public expenditure in health care is not cost-effective. Hospital-based health care consumed approximately 92 percent of total health care expenditures, while only 8 percent went toward outpatient public health care. Primary health care services have been sustained over the past few years largely through the concerted efforts of humanitarian agencies and Armenian diasporan organizations. The result has been a fall in life expectancy, a sharp increase in the incidence of circulatory diseases and other noncommunicable illnesses, a high maternal mortality ratio due to the use of abortion as the primary means of fertility control, and inadequate health services. The situation is similar in education, where public funding is estimated to have declined from 7 to 2 percent of GDP and from 11 to 5 percent of total government spending between 1992 and 1994. Despite these cutbacks, the student-teacher ratio and class size have been maintained at rates that are low by Western standards. Combined with the effect of the 1988 earthquake and energy crisis, the minimal level of public funding has meant that most schools have kept operating only because of emergency assistance from aid agencies and informal contributions from parents. The inefficiency and low level of public spending on human capital have had particularly severe consequences for the poor. There is a danger that a new form of long-term structural poverty will emerge if some groups in society are denied access to good health services and educational opportunities and thus become trapped over generations in a vicious cycle of poverty.

Safety Net

In Armenia today, the main coping mechanisms for the poor are family transfers, remittances, humanitarian assistance, and informal sector activities. Obviously, the very poor are the ones who do not benefit from family transfers and private remittances and do not receive revenue from the informal sector. Formal social assistance cash benefits are insufficient to protect the poor, due to fiscal constraints and the difficulty of targeting. The distribution of humanitarian assistance and community-based support, as well as mechanisms to facilitate the access of the poor to housing and utilities, will be important components of social protection in the short and medium term.

The existing system of cash transfers in Armenia consists primarily of social insurance programs, since few social assistance programs are operational other than the distribution of humanitarian aid financed by donors. The major cash transfers are the pension system and child allowances, although the government provides many other transfers, including unemployment benefits, student stipends, limited funeral benefits, and sick and maternity leave (Braithwaite 1994). None of these transfers is specifically targeted to the poor, although some benefits reach more poor people than others.

Coverage of benefits is broad. Among rural households, 89 percent of the very poor, 87 percent of the poor, and 90 percent of the nonpoor receive at least one of the four rural transfers; in urban areas, 83 percent of the very poor, 85 percent of the poor, and 84 percent of the nonpoor receive at least one of the seven urban transfers. Child allowances (including single-mother and many-child family payments) are the most broadly distributed transfer, reaching about 61 percent of urban families and 67 percent of rural families. Considering the country's severe fiscal con-

straints, targeting cash benefits to the poor should be an important component of the government's poverty reduction strategy. Both of the commonly used methods of targeting benefits—categorical targeting and income testing—are difficult to apply in the Armenian context.

The PAROS project is a system designed to target social benefits and facilitate the distribution of humanitarian assistance to the most impoverished sectors of the Armenian population. The system consists of a family chart (or "social passport") consisting of information on family socioeconomic characteristics, size, composition, estimated revenues, and housing attributes. Families who request humanitarian assistance register under the project and automatically obtain this social passport. The architects of the project recognize that some fine-tuning will be required before the system can be extended to the targeting of social assistance: the instrument now relies strongly on the current income statement of the interviewee; the variable within the instrument that measures families' degree of vulnerability needs to be reexamined; and the choice of the weighting system needs to be justified in order to ensure social and political viability. Some of the attributes registered in the social passport do not have a strong correlation with poverty, and there are insufficient control mechanisms to ensure that the information gathered is reliable. Armenia faces a significant challenge regarding humanitarian assistance because projected volumes are expected to decline in 1996 and beyond.

Family transfers and solidarities are important factors in the household's strategy for avoiding poverty. However, they are very difficult to measure because they are mainly informal, households are reluctant to answer questions quantifying levels, and many transfers are in-kind and thus difficult to observe. The qualitative assessment demonstrated that solidarity with members of the community outside the extended family is limited and that the poor who do not benefit from an extended family network are at serious risk of falling into long-term poverty. The data suggest that in both urban and rural areas families have unequal access to informal support networks and that poor households have fewer sources of informal assistance.

Private remittances are an important source of revenue for many families, but their extent and level are unknown. Very rough estimates of cash transfers carried by passengers flying between Russia and the United States during 1995 were between US$28 million and US$50 million. The disorganization of the financial sector and the people's lack of trust in banks are major obstacles to the flow of remittances, which originate mostly from Russia and, to a lesser degree, from the United States, Lebanon, and France.

Local solidarity groups, NGOs, the Armenian church, and local charities have a potentially important role in undertaking projects supporting the poor. For the moment, however, indigenous community-based structures are weak, while diasporan groups are often perceived by the population as external organizations. Many NGOs have been created in recent years, and about 700 national NGOs are registered with the Ministry of Justice, but few are effective in the field, and even fewer are oriented toward practical development work with the poor (Peabody 1995). Unfortunately, the population is suspicious of collective action, as a result of previous problems with Soviet-era organizations. Nevertheless, a number of old structures seem to be reorganizing and changing orientation with some success, particularly some women's organizations and parents' associations.

Poverty Strategy

Economic growth will be essential for poverty reduction, but it may not be sufficient to erase poverty in either the short or the long term. Because it is not clear at this stage how the profile of poverty will evolve, careful monitoring of this evolution will be extremely important. The vulnerable groups that are most at risk of being excluded from the benefits of restored growth include households in geographic areas that suffered from destruction of infrastructure (that is, in the earthquake zone and border areas) or in rural areas where land is scarce and of poor agricultural quality; families whose children drop out of school or who are unable to afford good education; families that are unable to invest in adequate health care; and workers whose skills are not adapted to market demand in the new growth sectors.

For the development of poverty-reducing growth strategies, four key issues were identified, and some suggestions were made concerning possible approaches for addressing these issues. First, the scale of the informal sector and the lack of good poverty indicators present enormous difficulties for both categorical and income targeting of social assistance. This, in conjunction with tight budgetary constraints, means that cash transfers can have only a relatively limited impact on poverty reduction in the short to medium term.

Second, ensuring that the poor have access to good health and education services presents a particular challenge. It is clear that investment in human capital will be a crucial factor in promoting economic growth and reducing poverty. Lacking abundant raw materials for export, Armenians have depended historically on the strength of their human capital base. Recent erosion of this base, due to rapid decline in the quality and coverage of education and health services, is jeopardizing the potential for economic recovery while creating the risk of social instability and longer-term structural poverty. Priority should be given to improving both the level and the efficiency of public expenditure on health and education, by concentrating public resources on ensuring universally affordable and good-quality basic services.

Third, restructuring of the economy is likely to leave sections of the population without access to productive assets or employment unless concerted preventive actions are taken. As agriculture moves from subsistence farming toward modern production, it will cease to play the role of safety net, as it has done in the recent past. Agricultural modernization will need to be accompanied by specific measures to protect the interests of small farmers and avoid a rapid increase in rural poverty. Such measures include accelerating land titling, creating a transparent market for land, supporting a system of cooperative rural credit, restructuring extension services, and improving rural transportation. Short-term measures for broadening income-earning opportunities include keeping the minimum wage low to encourage hiring by enterprises. Policies for the medium term include reducing the level of the payroll tax, in parallel with the restructuring of pensions; encouraging the development of private sector training programs by enterprises, NGOs, and specialized institutions; and creating a fiscal and administrative structure that does not impede formal self-employment and small businesses.

Finally, there is considerable scope for strengthening the capacity of organizations involved with poverty alleviation. Despite the inherent difficulties in targeting benefits to the poor in Armenia in the short and medium term, some improvements can be made to existing social assistance programs by testing new approaches to geographic and categorical targeting. For example, private sector and local group initiatives can be encouraged and expanded by creating NGO partnerships with local and central governments, by supporting small business and NGO activities, and by increasing transparency and effectiveness in the distribution of humanitarian aid through improvement of the PAROS program.

Statistical System

Armenia was the first republic in the FSU to design and carry out a national, representative random-sample household expenditure survey to monitor the living standards of the population. The project was carried out in 1993–94 by the Department of Sociology of Yerevan State University, in collaboration with the State Committee for Statistics, Goskomstat Arminii. The pilot survey was carried out with support from the Soros Foundation, and the analysis was undertaken with financial support from the World Bank.

Based on the experiment of the pilot survey, a program of living standards monitoring was designed to be carried out between 1996 and 1999. The program includes support for two surveys. The first survey will be rapid, with a single visit and a large sample. It will cover household revenues and expenditures, health and education, employment, and access to public services and will include some qualitative questions on cultural and social issues. The second survey will cover 12 months and will measure seasonal variations in income and expenditure. The questionnaire will be comprehensive and will allow for an in-depth analysis of the determinants of poverty. The household questionnaire will be supplemented by a qualitative module on people's aspirations and a community module on infrastructure, community equipment, and communal life.

A small study fund has also been set up to hire local consultants from university and research institutions to support the studies necessary to inform policy decisions. The first study to be funded will update the minimum consumption basket. The program is supported by the Social Investment Fund Project funded by the International Development Association (IDA).

Azerbaijan

Poverty Profile

Poverty is not a new phenomenon in Azerbaijan, although it was not officially acknowledged until the late 1980s. (In 1989 the official estimate showed 34 percent of the population below the FSU-wide poverty line.) Guaranteed employment, generous public transfers, largely free and universal social services, and subsidies on food, housing, utilities, and other necessities meant that income poverty rarely translated into severe deprivation. However, poverty appears to have increased substantially during the 1990s, mainly as a result of the dramatic economic collapse.

This poverty profile is based on the Azerbaijan Survey of Living Conditions (ASLC), which was carried out at the end of 1995. Although Azerbaijan had a long history of household surveys (the Family Budget Survey, or FBS), the sample was not representative, and the ASLC was the first nationally representative household survey. The ASLC was also representative for three subgroups: the population of the capital (Baku), the non-Baku population, and internally displaced people. The poverty line used was developed by the government on the basis of an average daily intake of 2,360 calories (adjusted for age and gender). Although this is somewhat higher than the minimal required intake, the use of an officially developed line enhanced the credibility of the results within the country. A food-only poverty line was used because the reliability of information on important nonfood expenditures (for example, housing) was questionable.

More than 61 percent of the population was found to be poor, as measured by this poverty line, and 20 percent was defined as very poor (with household expenditures less than half of the household-specific poverty line). As for the three representative subgroups, poverty was roughly equal in Baku and non-Baku but substantially higher (75 percent) for displaced people. Poverty rates for urban and rural areas did not vary greatly, largely due to the important role of own-produced food in rural areas. Analysis done for eight economic zones revealed significant regional variation, with the noncontiguous region of Nakhichevan being easily the poorest and the Southwest region relatively the best off.

Although it is difficult to track the dynamics of inequality, anecdotal evidence suggests that it has increased significantly. In the ASLC, the Gini coefficient was 0.35, compared with a 1989 Gini coefficient from FBS data of 0.275. Official and ASLC data for income decile ratios indicate a substantial widening of the gap between the richest and the poorest since independence, with the decile ratio increasing from 3.3 at the end of the 1980s to between 8.5 and 11 in 1995.

Despite the high levels of poverty, human development indicators remain strong, with school enrollments over 90 percent, literacy at levels comparable with those in Organisation for Economic Co-operation and Development (OECD) countries, and an infant mortality rate well below average for the country's per capita income. However, problems are emerging in social services; the ASLC findings show that 50 percent of the acutely ill do not seek care in health facilities because of the informal payments required and that periods of extended absence from school are more than 40 percent in some regions. In addition, anecdotal evidence suggests that the stability of the infant mortality rate and other health indicators may be a product of increased misreporting and nonreporting and may mask substantial deterioration. Even official data report infant mortality rates in some regions as high as 78 deaths per 1,000 live births.

Incentive and Regulatory Framework

The decline in output in Azerbaijan has been among the largest in the FSU. By 1996 GNP had fallen more than 65 percent since 1990, to only US$490 per capita. In addition to factors common to FSU republics, such as the collapse of trade among the republics and transition problems, the country suffered from external shocks that have exacerbated the situation. These include the conflict with Armenia (which has resulted in around 12 percent of the population being either displaced people or refugees) and the disruption of trade due to the Chechen conflict.

Since 1995 stabilization policies have been relatively effective. In 1996 inflation was the lowest in the FSU, the fiscal deficit was under control, and growth had resumed. However, structural impediments remain, such as a fragile financial sector, formal and informal constraints on small- and medium-scale enterprises, and slow progress on reforms of input and marketing arrangements for agriculture. In addition, the welfare costs of stabilization have been substantial; the real value of public transfers collapsed in recent years to the point where transfers now play only a marginal role in household well-being.

Nevertheless, Azerbaijan's economic prospects are strong, mainly as a result of its large oil reserves. GDP is projected to grow an annual average of 12 percent beginning in 1998 and continuing well into the next decade. An unknown variable is the likelihood of a full peace agreement with Armenia, which would allow internally displaced people to return to their areas of origin. In 1997 progress toward a resolution of the conflict appears to have been made, but even a full peace agreement will imply large reconstruction costs.

As for many countries with substantial natural resource wealth, the emerging boom in the oil sector is likely to provide mixed blessings. On the one hand, oil will be the backbone of projected high growth. On the other, there is a great risk of "Dutch disease." It is imperative that the government invest its oil revenues prudently in the agricultural and nonoil productive sectors to ensure that currency appreciation does not result in a dual economy in which those in the resource sectors do very well while those in other sectors find their goods increasingly uncompetitive. If this can be done, the prospects for large reductions in poverty are high. Otherwise, the poverty rate may remain roughly stable, but the severe poverty rate is likely to rise, and inequality will increase sharply.

Public Expenditures

Public expenditures have collapsed since independence, largely in line with the fall in GDP, but also as a result of revenue collection problems. Public expenditures were 36 percent of GDP in 1994 but dropped in 1995 to around 20 percent and fell further in 1996. Less than 1 percent of GDP went for capital expenditures in 1995 and 1996. Under optimistic estimates, public expenditures will account for only around 20 percent of GDP by the end of the decade, but revenue performance up to mid-1997 suggests that the actual outcome may be lower. One benefit of the severe contraction in expenditures was that the overall deficit fell from over 11 percent of GDP in 1994 to under 3 percent in 1996.

The fall in public spending as a share of GDP is reflected in social spending. The share of GDP spent on education and health fell from more than 9 percent of GDP in 1992 to around 5 percent in 1996. Despite this, the government has defended social service expenditures better than other spending areas; the overall share of social service expenditures in public expenditures increased significantly, from 19 percent in 1992 to around 27 percent in 1996. However, real expenditures remain at very low levels, with public education spending in 1996 only one-quarter of its 1992 level and health spending only 20 percent of its 1990 level.

In recent years the picture with transfer expenditures has been similar: expenditures fell significantly as a share of GDP and in real terms, but transfers accounted for a larger share of public spending. Between 1994 and 1996 spending on the major transfer programs (pensions, child allowances, and compensation payments) fell from 7.6 of to 5.4 percent of GDP, with a backlog of arrears. At the same time, transfer expenditures as a share of public spending rose from 16 to 26 percent. Despite this defense of spending, the minimum pension in 1995 fell to only 2 percent of its 1991 real value, and average pensions fell to 4 percent of their real 1991 value.

The fall in public expenditures on social services has been offset in part by sharply increased private expenditures. This is particularly true of health spending, where in 1995 private expenditures were more than three times the level of public expenditures. The substitution of private for public spending has had negative effects on access, exacerbating preexisting problems with public expenditures that are oriented toward curative hospital-based care and tertiary education. The report recommends several reforms to mitigate these effects, including reorientation of public spending toward primary care, development of a free basic package of health care to be offered in public facilities, revision of input norms in education, stronger oversight of informal access problems in education, and assessment of existing informal payments in social services, in order to promote both more transparent copayment systems and more efficient use of out-of-pocket revenues.

Safety Net

Azerbaijan inherited a comprehensive social safety net. However, the system is increasingly ineffective, given the generous eligibility rules for public pensions and the partial effectiveness of targeting of social assistance. Even within the constrained budgetary envelope, there is substantial scope for improving the real value of transfers by reforming eligibility criteria for pensions and social assistance. In addition, even if the current share of GDP devoted to social protection is merely sustained, the real amounts available for transfer programs in the medium term should increase substantially.

The main recommendations regarding the safety net include reform of the pension system, including raising the normal retirement age, reducing early retirement provisions, and reducing the level of working pensions; assessment of the potential for supplementing wage-based means-testing of social assistance with proxy means-testing or establishment of different eligibility thresholds in rural and urban areas to allow for differences in income structures; and introduction of an energy compensation scheme for poor households to mitigate the social impact of energy price liberalization.

Poverty Strategy

The strategy proposed is the common one of broadly based growth complemented by increased and more efficient investment in social services and better-targeted transfer spending. Concerning the first element, given Azerbaijan's resource endowments, the economy should grow in the coming years. The issue will be to ensure that the policy environment enables the nonoil sectors to compete at home and abroad. This will require easing of constraints on the operation of small- and medium-scale enterprises, better official understanding of the interaction between exchange rate movements and sectoral competitiveness, and sensible investment of oil revenues.

Social service delivery can be improved in many respects. In health, focusing on a basic package of care and on primary care facilities could have a big impact on both efficiency and equity. In education, recurrent expenditures must be rationalized (for example, by reducing staff-student ratios) to free up resources for the required investments. The main reforms affecting the safety net are outlined above. Although in the medium term there will be more fundamental reform issues (such as systemic pension reform), for now a better-targeted system would allow more generous social assistance and insurance benefits.

Statistical System

Azerbaijan inherited and continues to operate the FBS. The inherited system has no tradition of unit record analysis. However, interaction with the State Statistical Agency throughout design and implementation of the ASLC has brought about important reform proposals for the sample, the questionnaire, and analysis of household survey data, which are expected to be introduced in 1998. For the reforms to be really effective, further external technical support is needed, particularly in the areas of sampling and data analysis. Line ministries have expressed interest in using the new results for policy development, and institutional linkages between these ministries and the statistical agency will have to be strengthened to ensure that their objectives are realized.

Belarus

Poverty Profile

The 1995 World Bank report on poverty in Belarus found that the incidence of poverty grew from less than 5 percent in 1992 to about 22 percent on average in 1995. The rate varied considerably during the year—it was 36 percent in the first quarter of 1995 but dropped to 24 percent in the following quarter. This seasonal variation is explained in part by the increased availability of food from household garden plots during the warmer months; if only cash income is measured, the poverty rate in the first quarter of 1995 would be close to 50 percent, as against 36 percent when noncash income is included. In-kind income from small-scale agriculture, which averages between one-fifth and one-third of total household income, is thus a key component of households' well-being and frequently determines whether a household suffers or escapes from poverty. Poverty incidence is lower in rural than in urban areas (30 and 39 percent, respectively). Those most affected by poverty are single parents, one-worker families, and large, less-educated families with children. The number of children in a family is the single most important determinant of poverty. Gender differences were found to be insignificant. Poverty incidence by employment varies from 13 percent for military personnel to more than 50 percent for the unemployed. The incidence of poverty among pensioners is only 26 percent, making them a relatively privileged group.

Incentive and Regulatory Framework

The dramatic growth in poverty in Belarus is largely the result of the severe drop in output and real incomes in recent years, not of increased inequality of income distribution. The loss of traditional export markets in the FSU, large increases in energy prices, lack of market economy institutions, and continued resistance to reforms and adjustment have caused a collapse in production. Between 1991 and 1995 GDP declined about 40 percent, a factor that accounts for more than 30 percentage points of the poverty rate increase as of the first quarter of 1995. In contrast, rising income distribution inequality added fewer than 5 percentage points to poverty. Renewed economic growth is clearly the first and most important step toward establishing higher living standards for all. However, until a market-oriented environment that encourages investment and growth has been established, an excessively large share of the Belarussian people will continue to live in poverty.

Public Expenditures

Many social services have worsened since 1990, taking a toll on human development indicators. The state-run health care system has found itself ill-equipped to deal with resource constraints, and health conditions have deteriorated as people have encountered increasing problems in accessing health facilities able to provide the services and medicines they need. In theory, the entire population continues to be covered for a full range of public health services, but in practice the system is skewed toward persons who are employed. Inequalities in delivery and access are widening. Children, the unemployed, and pensioners do not receive adequate care, especially preventive care. Infants and women suffer the most. Male life expectancy has fallen to levels prevalent before the 1950s, and general mortality has increased. Standard performance indicators for education show no significant change, but these quantitative indicators mask qualitative shortcomings and growing inequalities in access to a good education. The public education system has increasingly failed to provide badly needed skills and training. The resulting depletion of the country's human capital could lead to further declines in output and living standards in the coming years and jeopardizes the country's prospects for growth.

Safety Net

Under the Soviet system, social protection was not built to favor the poor, which did not constitute a sizable group. Consequently, the current social safety net in Belarus encompasses an extensive system of cash and in-kind benefits but is still unable to provide adequate protection to the poor. Moreover, existing social programs are not sustainable in their current form, and there is no evidence that the current system of welfare benefits is cost-effective. The government spends large amounts of money on social protection—13 percent of GDP and 36 percent of total public spending—but these programs do little to reduce poverty because only a fraction of this support is targeted to the poor. Some programs, such as family benefits, are reasonably well targeted to households that are likely to be poor. Overall, however, the nonpoor receive 1.5 times more benefits than the poor.

One reason is that social protection includes not only means-tested support for low-income families but also social insurance programs such as pensions that are not designed to help those who are already poor. Such programs do, however, reduce the risk that people will become poor. Falling output, aging population, and lax eligibility controls are making the social protection programs insolvent, and a crumbling tax base must struggle to support a growing number of beneficiaries at benefit levels that are frequently excessive, given the beneficiaries' other sources of income. The poverty assessment also identified failures in the actual administration of benefits. For instance, about 60 percent of nonpoor elderly receive family benefits under the social pension system, while about 37 percent of poor families do not receive family benefits even though they qualify.

Poverty Strategy

The report concludes that limited earnings capacity is the main cause of poverty in Belarus. Promoting income and employment growth is thus the government's best policy for fighting poverty. Attaining growth depends on an improved institutional environment that fosters efficiency and profit maximization. Such an environment is needed both to attract the investment required to support the restoration of growth and to ensure increased productivity for new as well as existing investments. This is a huge, long-term task, and the outcome will depend on the correct sequencing of reforms and the speed of change in the following areas: reducing and refocusing the role of government; implementing reforms that affect the institutional environment; creating a broadly based incentive structure founded on meaningful, market-determined prices; developing an efficient financial system; and developing and promoting new enterprises in the private sector. In addition, social programs are needed to protect the groups most vulnerable to poverty. The existing social programs need to be better targeted and administered to increase their cost-effectiveness. These programs should ensure fiscal sustainability and cost-effectiveness, incentive neutrality, support for human capital formation, promotion of self-reliance and rehabilitation rather than dependency, and a clear distinction between social insurance and social assistance.

Statistical System

The official "minimum consumer budget" methodology in Belarus suffers from several deficiencies: the daily nutritional intake norms are larger than the internationally recommended calorie norms; economies of scale in household consumption are treated improperly; consumer baskets bear little relation to actual product availability or consumption patterns; obvious luxuries are included; and the real value of consumption baskets changes over time. In addition to moving toward a more suitable set of poverty and means-testing criteria, as recommended in the poverty assessment, Belarus needs to develop more readily accessible income information that can be used to administer well-targeted, means-tested safety net programs.

Bolivia

Poverty Profile

The updated Bolivia Poverty Report found that there was some progress toward reducing urban poverty between 1976 and 1992 but little progress toward reducing rural poverty in Bolivia. Poverty is directly associated with a low level of education and is more common among the indigenous population. In rural areas—where an estimated 95 percent of the population is poor—the poor are generally agricultural peasants or wage earners who have limited landholdings and who lack access to credit and basic infrastructure. In urban areas, the poor are concentrated in the informal sector, particularly among domestics and nonremunerated family workers.

Incentive and Regulatory Framework

The report examines the level and allocation of social expenditures by the public sector and the resulting provision to the poor of social services and key safety net programs. It also analyzes some ways of expanding the income-earning opportunities of the poor through increasing productivity—more specifically, through increasing labor productivity and increasing the access of the poor to formal credit and land. The results of the report indicate that productivity is the major source of earnings differentials between genders and ethnic groups in all labor markets; hence, the recommendation is to invest in human development, especially for rural indigenous girls. The report also recommends modifications to specific legal and regulatory constraints in the credit and land markets that are currently limiting the earning opportunities of the poor.

Public Expenditures

Although there has been some improvement in social indicators over the last few years, the coverage and quality of key public services—education, health, and water and sanitation—remain inadequate as a result of both insufficient and inefficient allocation of public resources. Furthermore, public resources have rarely been directed toward the poor, with the rural population, indigenous peoples, and females suffering the most.

Safety Net

Although Bolivia lacks a comprehensive social safety net program, there are a number of programs for reaching the most vulnerable poor, including programs designed to address the specific needs of indigenous people and health and nutrition. Programs for women and children include the PLAN VIDA (Plan Nacional para la Reducción Acelerada de la Mortalidad Materna, Perinatal y del Menor de Cinco Años) and PIDI (Proyecto Integral de Desarrollo Infantil). Established in 1990, the FIS (Fondo de Inversión Social) replaced the ESF (Fondo de Emergencia Social), which was created as a mechanism for cushioning the impact of the stabilization policies on the employment and income of poorer groups of the population. Targeting the neediest communities in 80 priority provinces, the FIS focuses extensively on poverty alleviation through the development of education, health, and water supply and sanitation services.

Poverty Strategy

To accelerate poverty reduction, as part of the government's comprehensive strategy that includes sustainable rural development, further emphasis should be placed on human development, specifically through (a) continuing to reallocate more resources to primary education within the framework of the ongoing education reform, giving particular attention to rural areas and enrollment and attendance of girls, and (b) finalizing a comprehensive basic health care strategy and then reallocating resources accordingly. In order to complement these efforts and further expand earning opportunities for the poor, the report recommends that the government also expand the types of properties, especially movables, that can be used as collateral for secured transactions; regularize the land property rights regime, within a reformed land policy framework; and improve key registries for property rights and credit.

Statistical System

Although still weak, poverty data in Bolivia have improved since the time of the previous poverty report. An updated poverty map was generated from the information collected in the national census carried out in 1992, allowing for a comparison with the

poverty map generated from the 1976 census. Bank support to the INE (Instituto Nacional de Estadísticas) has resulted in the carrying out of a Living Standards Measurement Survey (Encuesta Integrada de Hogares) on a fairly routine basis since 1989. Nevertheless, the information on rural areas—where the majority of the population is estimated to be in extreme poverty—is still limited in coverage. Building on complementary rural surveys carried out in recent years, including a limited rural household survey carried out in La Paz, Potosí, Cochabamba, and Oruro for this report, the characteristics of the rural poor—indigenous people, smallholder farmers, agricultural workers, and people with limited education—have not changed.

Republic of Congo

The assessment was completed before the civil conflict that began in June 1997.

In the early 1980s the Republic of Congo was flush with oil revenues and received substantial external assistance. The formal economy was run largely by the state, and, as a result, public spending and relatively high wages in the public sector attracted migration to Brazzaville and Pointe Noire. The rural exodus was also linked to difficulties in marketing and to the decline of coffee, cocoa, and sugar. Despite the weak agriculture sector, GNP per capita was US$890 in 1980; by 1985 it exceeded US$1,000, double the average for Sub-Saharan Africa.

Poverty Profile

Yet poverty was widespread in the early 1980s, especially in terms of survival prospects. Infant mortality, for instance, stood at 87 per 1,000 in 1980 and life expectancy at birth was 51, around the relatively low Sub-Saharan average. Several reports from hospitals put maternal mortality at a relatively high 650 to 900 per 100,000 live births. Access to safe water was only 42 percent in urban areas and 7 percent in rural areas in the mid-1980s.

Since 1980 poverty appears to have worsened as real GDP per capita declined from US$900 in 1980 to an estimated US$540 in 1995. The available nutrition indicators tend to confirm the hypothesis of deterioration, which affected rural children and mothers the most. Real private consumption per capita rose only 14 percent over 1980–95 and declined 19 percent over 1985–95. The decline in consumption in the 1990s is thus part of a longer-term trend. Surveys of household expenditures conducted in Brazzaville indicate that inflation-adjusted expenditures per person contracted by a striking 40 percent over 1993–95, so that consumption is being depressed. The household surveys of expenditure were conducted among approximately 300 households in Brazzaville as part of surveys of child nutrition. The results apply to Brazzaville and not to the Congo as a whole and are approximate because of the modest sample size.

Incentive and Regulatory Framework

Poverty worsened mainly because of multiple shocks and policy errors that harmed public welfare by reducing the resources available for imports and for the government budget. The decline in the price of oil in the mid-1980s sharply reduced the availability of resources. Agricultural exports lost competitiveness because of an appreciation of the exchange rate of the domestic currency (the CFA franc, or CFAF) against the U.S. dollar, and at the same time, the dollar price of the export commodities in world markets declined, further reducing resources. Moreover, these developments did lasting damage by discouraging investment in agriculture. The devaluation of the CFA franc in January 1994 created potential for renewed growth of production by raising the CFAF export price of agricultural goods and lowering the U.S. dollar price to internationally more competitive levels. But the potential was not realized because the poor condition of the plantations and roads, and also export taxes, prevented farmers from receiving the full benefit of the higher CFAF export prices.

These shocks were compounded by several policy measures and, in particular, the increase in public employment. Between 1985 and 1992 about 25,000 persons were hired into the public sector. A further complication was the 20 percent increase in civil service wages in 1991. The government then effectively funded the wage bill and serviced earlier debt by borrowing against future oil revenues at relatively high commercial rates. These measures increased government obligations that were not development-oriented at a time when external shocks had reduced revenues and a civil conflict had increased needs.

To these essentially economic shocks was added the tragedy of civil violence. A dispute over the outcome of the first round of parliamentary elections in June 1993 triggered fighting between private and politically oriented militias. The fighting and the resulting fear spurred large population movements along ethnic lines. The main short-term economic cost was the temporary cutting of the train route between Brazzaville and Pointe Noire on the sea, which set the price of food imports soaring in the months ahead of the devaluation. The major long-term costs were the widespread destruction of housing, with approximately 10,000 houses damaged and destroyed in Brazzaville and its suburbs, and the appearance of displaced people living in extreme conditions.

Public Expenditures

Each chapter of the assessment sets forth examples of situations in which the government had to choose between spending its limited resources for a development purpose or for an alternative use. In the case

of education, the planned recurrent nonsalary budget for schools was reduced severely, much more than university scholarships that benefit youth from upper-income groups. Health expenditures were directed toward payment of salaries in Brazzaville and the University Hospital rather than toward health districts that would provide primary care in the regions. Persons displaced by the civil conflict of 1993 received almost no assistance in reintegration and reconstruction. In the transport sector, the government launched an investment program but did not begin reconstruction of the key axes that connect Brazzaville to the sea and to the main food-producing regions. Reversal of this pattern, by redirecting public resources to development priorities, is a prerequisite to the reduction of poverty and the improvement of food security.

The level and allocation of resources meant that the government could no longer fund its basic operations. For example, it has owed as much as 14 months in wage arrears to civil servants and owes arrears to suppliers. Therefore, the government can no longer maintain public infrastructure or adequately operate the school and public health systems, let alone invest in new infrastructure. When funds do become available, civil service wages appear to have first claim. This is one reason why the budget often does not guide expenditures. Detailed studies of the health budget, for instance, show that actual expenditures often run below budgeted amounts.

The most visible consequence of the shortage of funds is the deterioration of the public infrastructure that was built in the age of abundant oil revenue. The drainage and sewerage system is partly broken and does not cover large parts of Brazzaville and Pointe Noire, and there is no garbage collection. Standing water and seepage have obvious consequences for malaria and diarrhea. Moreover, the lack of resources handicaps the public provision of health care. Lack of maintenance has left medical equipment and structures in disrepair, and medicines are not always available. There have been parallel consequences for education: the schools are in disrepair from lack of maintenance, and several schools were damaged during the civil conflict or are occupied by refugees and other homeless persons.

The poor condition of most of the main urban-rural routes has also led to a breakdown in internal trade in food. Brazzaville is about 520 kilometers inland and is connected to Pointe Noire on the sea by a road and a rail line. At present, the road is impassable much of the year, and the train frequently derails as a result of neglected maintenance. This has increased poverty and worsened food security because the rural poor often cannot produce for sale to the cities or for export, and the prices of basic food products are sometimes two to more than three times more expensive in Brazzaville than in rural areas.

Safety Net

The only safety net that functions is informal and works through private family and community solidarity. A small number of NGOs provide limited support to the poorest. There is a security system for the civil service and a pension system for public sector employees, but the government is not making payments, and the system needs to be restructured.

Poverty Strategy

Once damage from the present conflict is repaired, a rapid recovery could be possible through the restoration of basic social services and the rehabilitation of transport infrastructure. However, scarce public resources have often been directed to uses other than development. A prerequisite for poverty reduction is a reversal of this pattern, by instituting measures to increase public resources and redirecting public resources to development priorities. Another prerequisite is technical improvement of budgetary processes, through assistance to improve capacity, so that development expenditures are made as planned.

To enhance the volume of resources available for development purposes, the government would need to continue restructuring the public sector through measures that reduce the size of the civil service, reduce the external debt, enhance revenue collection, and privatize public enterprises. Freed resources could then be devoted to reducing the deficit, restoring basic health and education services, and investing in road transport and sanitation. This restructuring would form part of a larger effort to reduce poverty by promoting growth that would extend beyond petroleum to food staples, forestry, and export crops.

To improve growth and food security, internal trade in food staples could be intensified through the reduction of transport costs. The priority effort would be to open the road between Brazzaville and Pointe Noire, to rehabilitate several roads into the countryside, and to ensure maintenance through contracts with private companies. Agricultural productivity would rise, and unit costs would fall, as farmers re-

alize economies of scale in production and as they benefit from easier access to fuel, fertilizer, tools, and extension. This would improve the purchasing power of the urban poor by reducing the price of imports and of food produced by domestic farmers, thus improving food security. Roads are a win-win investment because the opening of the large urban market would also strengthen farmers' revenue. Rehabilitation of the main road axes and private investment to rehabilitate the railroad would also open the export market. The lower transport costs would benefit exports of tropical wood and would promote investment in traditional export crops such as sugar, cocoa, and coffee.

The rehabilitation of the main Brazzaville-Pointe Noire road is necessary for improvement in other areas. It is difficult to pay arrears and separation payments to public sector employees without raising the price of goods in Brazzaville, yet this could be avoided if goods could be brought in by road and therefore at lower cost. In addition, it would not be possible to launch any large-scale reconstruction of *quartiers* damaged during the civil conflict without raising the price of construction materials, again because of the condition of the road and rail routes to the sea.

Renewed growth of agriculture could be sustained through human welfare-enhancing and labor productivity-enhancing investments in health and education. An effort to improve public health through investments in sewerage and water supply would reduce malaria, diarrhea, and other diseases. Public health would benefit from these investments and from action to establish, fund, and operate health districts that would provide preventive and primary care. Some high-priority uses of scarce health funds would be for AIDS prevention, for primary health services in rural enclaves, for persons displaced by the civil conflict, and for street children. The focus could then shift to adequate funding, at a minimum, of the operation and rehabilitation of primary education to ensure the development of the productive labor force needed for eventual advancement into new industries that return higher real incomes.

Statistical System

Congo would need to develop national surveys that are updated regularly to monitor the reduction of poverty and to develop and adapt policies to reduce poverty effectively. A national survey of household expenditures would identify the extent and geographic distribution of poverty and identify concentrations of poverty, allowing the development of policies targeted to alleviate concentrations of poverty. The survey should be designed to identify potential concentrations of poverty by region, in rural enclaves, and among groups such as women heads of household with small children, street children and orphans, the handicapped, and displaced persons. The survey could then be updated every year or two by rapid, smaller-sample, and low-cost surveys. These surveys should also include information on education, health, and nutrition. To assure food security, it would be useful to complete the demographic and health survey that is in progress, which contains a nutrition component, and to conduct occasional follow-up surveys.

Costa Rica

Poverty Profile

Costa Rica has had notable success in reducing poverty and improving social welfare. Poverty affected 48 percent of households in 1982; gradually, by 1994, only 16 percent of households were estimated to be living in poverty. The poverty profile is based primarily on a Social Investment Household Survey (ENISO, Encuesta de Inversión Social), conducted between December 1992 and February 1993. Questions related to demographic variables involving health, education, nutrition, incomes, expenditures, and labor market characteristics. The survey comprised 2,490 households and 10,550 individuals. Designed by the government of Costa Rica, its purpose was to collect statistical information suitable for analyzing and appraising the effectiveness of social policies.

About 159,000 households are poor, nearly one-third of whom have incomes below the poverty level and exhibit unsatisfied basic needs. The poor tend to have less schooling and thus are more likely to be illiterate than the nonpoor, are often found among female-headed households, often live in rural areas, which have twice the poverty headcount as the national average, are mostly self-employed, are less likely to be among the economically active population, and have larger households, with more children and a higher percentage of children 12 years old and younger.

Unsatisfied basic needs are more common among rural households. The structural poor comprise more than half the female population, both rural and urban. Moreover, female heads of households tend to be poor and have double the unemployment rate of their male counterparts. The urban poor are characterized by substantially higher rates of open unemployment, especially among heads of household. Higher unemployment is exhibited in female heads of household among the structural poor and the poverty line poor of both urban and rural areas.

Education

As much as 30 percent of school-age children do not attend school; and among the unsatisfied basic needs (UBN) poor, about 20 percent of children ages 7 to 10 are not in school. These are significantly higher rates than for the poverty line poor and nonpoor. Access to education is low in rural areas, and school attendance is much lower after age 10 than in urban areas. This contributes to a significant difference in average years of schooling for family heads of household by sector of employment: for agriculture it is only 4.7 years, whereas for other sectors it is 7.4 years.

Health

A high proportion of structural poor and UBN poor use public health services due to good coverage by the social security system and guaranteed access to subsidized health services. However, participation rates in all poverty categories are low compared with those of the nonpoor, since the poor are much less likely to participate in formal social security programs. This helps to explain why there is lower coverage for the urban structural poor than for any other rural poverty category. Among the nonpoor, access to and participation in public health services subsidized by the social security system appear to be the same as among the poor; however, the treatment of poor clients by public health service personnel is an issue. Users must wait for extended periods to receive treatment and are commonly treated rudely by health workers. Among the structural poor, attendance of pregnant women at medical control centers is comparatively low, while a greater proportion of those women who do go to control centers only see a nurse and not a medical doctor.

As for regional differences, the highest aggregate poverty levels and also the highest numbers of poor in the structural poverty and poverty line categories live in regions outside the Central Valley. In the metropolitan area, the structural poor, poverty line poor, and the UBN poor constitute almost 25 percent of total households. Structural, poverty line, and UBN poor comprise nearly 40 percent of households in the "rest of urban" areas and 45 percent of households in the "rest of rural" areas. This is also true for structural poverty, for which the percentage in the "rest of urban" and "rest of rural" areas represent more than twice that observed in the metropolitan area. Poor agricultural workers are concentrated in the Brunca and Chorotega regions, both of which are outside the Central Valley.

Incentive and Regulatory Framework

Costa Rica has succeeded in carrying out a structural transformation while continuing to fight against poverty as a result of several interrelated factors. The

structural adjustment process initiated in the mid-1980s reoriented the development strategy toward export- and private sector-led growth, which allowed the economy to maintain relatively high growth during the process of adjustment. The recovery of growth has supported a large increase in employment and limited the fall in real wages commonly associated with the adjustment process—both of which had a powerful impact on poverty.

There is a strong link between economic growth and poverty in most countries. This is especially true in Costa Rica. First, much of this growth has been based on sectors that employ a large number of the poor, mainly agriculture. Over more than a decade, growth has narrowed the rural-urban wage differential and reduced poverty. Second, Costa Rica's long tradition of investing in education has been maintained from the 1980s to the present. Despite a decline in education expenditures due to fiscal pressures, educational attainment has improved significantly. In 1981 three-fourths of families were headed by someone with a primary education. As better-educated young people entered the labor force, this percentage declined to 65 percent by 1992, and the supply of unskilled labor began to diminish as well. Growth did the rest. The current pattern of growth—based on tourism, nontraditional agricultural exports, and urban services—has pulled labor out of low-wage agriculture and into higher-paying occupations.

The government is facing the dilemma of maintaining its commitment to social welfare in the face of political realities and fiscal constraints, as well as competing priorities. Infrastructure investment (mainly maintenance) postponed during the 1980s needs to be expanded. If the poor are to continue being served by social policies at acceptable levels, public expenditures will have to be redirected, especially toward services for the poorest groups.

Public Expenditures

The share of national wealth devoted to social expenditures in Costa Rica has been among the highest in the Latin America and the Caribbean region, at levels between 15 and 18 percent of GDP over the past 20 years. This underscores both the commitment and cost of building the country's commendable level of social infrastructure. However, the fiscal effort implemented in connection with the stabilization and adjustment programs of the 1980s and 1990s kept the level of social expenditures below that of the 1970s. Recovery of 1985 levels of per capita expenditures occurred by 1993 in priority social areas; however, at about 19 percent of GDP in the 1992–95 period, social expenditures were slightly under their mid-1970s level. Since the 1980s there have been important reductions in expenditures for education and health. Unless the pension system is rationalized and more carefully targeted and administered, it will continue to be a drain on public expenditures and constrain policy efforts to increase flows to social programs directed to the needs of the poor. After 1990, other than social security, the only notable increase in per capita expenditures occurred in housing, where the redistributive impact of social policy is difficult to assess.

Safety Net

There is still a strong commitment on the part of the government of Costa Rica to provide a wide range of social services to all segments of the population. Its social indicators in the aggregate remain among the best in Latin America and in the developing world. However, findings also suggest that there still is need to concentrate social benefits better on the poor. This is true despite a generally lower incidence of poverty in the mid-1990s than during the early to mid-1980s, stemming from the economic turnaround.

In essence, the broadly based welfare concept has not allowed sufficient resources to reach the poor and has limited their access to the education, training, and employment that could help them exit poverty. What will be needed, in consonance with the recommendations of the 1990 World Bank social sector spending report, is better targeting and a commensurate reduction of expenditures for benefits going to groups that are not poor.

The main impediment to the government's ability to meet the needs of the poorest are an inappropriate institutional environment that interferes with the efficient delivery of social services to the poor (more than 31 programs accounted for 12 percent of social expenditures), fiscal unsustainability of social policies caused by rigidities in the structure of employment and salaries in the public sector, and growth of pension payments, tax subsidies, and the service of domestic public debt.

Poverty Strategy

Traditionally, social policies and policies and programs to assist the poor have failed to concentrate resources on primary health care, basic education, and nutrition. During the recessionary period of the early 1980s, the government was unable to handle urgent social issues. An approach to target the poor under the FODESAF (Fondo de Desarrollo y Asignaciones Familiares) was progressively eroded in the absence of specific policy guidelines, instead of becoming an instrument for transferring resources among government institutions.

Social programs that continued to receive assistance in the mid-1980s included the National Social Compensation Program, which sought to alleviate the impact of the fiscal crisis on the poor. However, the combination of inefficient targeting, inadequate financing, and weak executing agencies resulted in a low impact of social policies directed to the poor and to social areas such as general education, primary health care, and nutrition. The government, in response, put great emphasis on price supports for basic grains and placed controls on food basket items, supplemented by substantial real wage increases (mainly in the public sector). These actions only complicated the supply response of the economy and deepened the financial dilemma.

The government's most recent initiative, the National Anti-Poverty Program, was instituted in 1995 under the direction of the Office of the Vice Presidency. It consists of a series of actions targeted to the poorest and most vulnerable groups and involves women, the unemployed, the disabled, children's development, and community development. Although some funding from FODESAF is available to finance these programs, increased impact in the medium term can be achieved only to the extent that these activities are better integrated into the regular actions that the various government agencies undertake in the social sectors.

Statistical System

The government has conducted periodic household surveys since 1976. Starting in 1987, methodological changes were introduced to improve income data (Encuesta de Hogares de Propósitos Multiples, EHPM). Between December 1992 and February 1993, the government administered another instrument, ENISO, specifically designed to collect information suitable for analyzing and appraising the effectiveness of social policies. The ENISO survey methodology combines the conventional poverty line approach with the notion of unsatisfied basic needs. The UBN approach uses a basic food basket that distinguishes between urban and rural areas and allows the factoring of price differences by region.

Although different methodologies have been used in Costa Rican household surveys, the current measurement of poverty gives more robust results than earlier approaches. Nevertheless, to generate consistent, internationally comparable time-series estimates of the status of the poor will require a more complete data set than currently captured by the EHPM's poverty line. This is important, given that the needs of the structural poor are not being met adequately and that the overall distributional effect of social benefits has remained.

Côte d'Ivoire

Poverty trends in Côte d'Ivoire reflect three distinct phases in the country's economic development. Through the late 1970s, economic growth was rapid but accompanied by growing inequality in the distribution of consumption and incomes. From 1979 until 1993, the economy was in recession. Living standards fell for all income groups, and poverty rose. Since the 1994 devaluation of the CFA franc, economic growth has been strong. The poverty impact of this growth has not yet been measured fully. The government has begun to put in place policies to enhance the impact of growth on the poor.

Poverty Profile

The poverty assessment tracks how the locus and nature of poverty have evolved over time and examines contemporary living standards among poor Ivorians. Côte d'Ivoire is home to many migrants from poorer neighboring countries. The analysis covers all people present in the country, regardless of nationality, origin, or duration of residence.

Household consumption. Two poverty lines are used. The higher line is CFAF 144,800 (US$290) per person per year in March–May 1995. Households above this line can generally afford to consume a calorically adequate diet and meet other minimum household expenses. The lower line, described as an extreme poverty line, is CFAF 94,600 (US$190) per person per year. This line was selected to focus on the poorest 10 percent of the population. It permits an adequate diet only if all other expenditures are eliminated.

The proportion of households below the higher poverty line rose from 11 percent in 1985, to 31.3 percent in 1993, and to 36.8 percent in 1995. With the increase came important shifts in the locus of poverty. Whereas almost all households below this line were in rural areas in 1985, a quarter of poor households were found in urban areas by 1995. In Abidjan, in particular, poverty rose very rapidly, even after 1993, when economic recovery was just beginning. Poverty is still concentrated among farm households and households headed by informal sector workers. Larger households and those with less-educated members have high concentrations of poverty.

Indicators of social welfare. Among poor Ivorians, social indicators are low throughout the life cycle: high mortality among infants and mothers, low educational attainment, low literacy, and low life expectancy. Access to food is not secure for many households, and up to a third of children are malnourished. The Human Development Index of the United Nations Development Programme (UNDP) ranks Côte d'Ivoire 145th among 174 countries. The country's rank is 130 in income terms, pointing to a gap between the economic and social achievements of the nation. Indicators revealing the use of health services and net school enrollment indicate that many basic needs were unmet in 1995. Among primary school-age children, 51 percent attended school. Among adults, 49 percent were literate.

Qualitative perceptions of well-being. The poverty assessment reports the findings of a qualitative survey conducted on a participatory basis by consultants and staff of the national statistical office (INS). Uncertainty, precariousness, exclusion, vulnerability, and powerlessness were all commonly perceived dimensions of well-being and poverty.

Gender and poverty. The poverty assessment finds important disparities in living standards between men and women as reflected, for example, in their respective access to health and education services. Female workers are concentrated in low-productivity food production and processing, informal trade, and domestic activities. Four factors combine to marginalize poor Ivorian women: inadequate control by women over their time and labor, limited access to productive resources, insufficient human capital accumulation, and lack of voice in public policy decisions. Low productivity among women has limited their economic contribution and thus diminished potential GNP.

Poverty Strategy

The bulk of the poverty assessment is devoted to a diagnostic review of areas where long-term progress will have to be made to reduce poverty. The main themes are (a) achieving and sustaining high rates of growth in which the poor parts of society can participate, (b) addressing gender disparities more fully within the national agenda with a particular focus on poor women, (c) improving access to food and incomes from food production among the poor, (d) achieving better labor market outcomes for the poor, (e) improving access of the poor to social services, (f) strengthening safety nets, and (g) strengthening poverty planning and building strong partnerships.

The poverty assessment concludes that recent growth performance and immediate growth pros-

pects are promising. The fate of poor Ivorians is nonetheless dependent on what rate of growth will be sustained in the longer term and how much lower-income groups will be able to participate. The government has set ambitious growth objectives and recently established its guidelines for a National Poverty Reduction Plan. The combination of growth and poverty plans can potentially bring rapid progress.

The government's poverty plan places considerable emphasis on narrowing the gap between social and economic achievements. It proposes more investment in infrastructure and basic human resources (adult literacy, primary school enrollment, and health care coverage) to benefit the poorest areas. The most pervasive constraint to long-term poverty reduction remains rapid demographic growth, both at the household and the national level.

Incentive and Regulatory Framework

During the 1980s, a number of incentive policies were not conducive to sound economic development. Economic regulation of *filières* for the main export crops; protective regimes for certain industries; uneven tariff and nontariff barriers to trade; protection in the transport, maritime transport, and energy sectors; labor market regulation; subsidization of credit; and exoneration of capital equipment from taxation had a generally negative impact on both growth and poverty reduction.

Current government policies are pro-growth and provide a broadly favorable context for poverty reduction. Measures are under way to reinforce public finances, maintain monetary discipline, strengthen public administration, rationalize the operations of public enterprises, lower regulatory barriers, raise efficiency in key sectors, and encourage private sector growth. Rapid completion of reforms will facilitate poverty reduction by buoying the economy and allowing higher productivity in the sectors where the poor earn their main livelihoods.

Public Expenditures

Public expenditures on social services do not adequately address the needs of poor households. An analysis of the incidence of public expenditures in health and education on poor Ivorians shows that the poorest quintile of the population benefits from only 11 percent of public spending on health and from 14 percent of spending on education, while the highest quintile benefits from 31 and 35 percent, respectively. Government spending in effect reinforces disparities. Within the social sector, expenditures on primary health services and primary education best meet the needs of poor Ivorians, while the greatest disparities occur at higher levels of services, notably hospital use and tertiary education. A greater shift of resources toward basic social services is needed.

Safety Net

In Côte d'Ivoire, three formal safety nets offering benefits on an individual basis exist or are being considered: a benefits program for public employees, private enterprise benefit schemes, and a health insurance program. These programs generally provide security to persons above the poverty line. Côte d'Ivoire also has much experience with targeted funds to achieve goals such as the improvement of housing or the construction and maintenance of rural and urban infrastructure. Although they do not have a specific poverty mandate, such programs sometimes deliver services in poor neighborhoods.

To facilitate the supply response to devaluation of the CFA franc, the government created several new social funds. These mostly provide low-cost loans or guarantees for microprojects financed by the commercial banks. They include support for young farmers, development of cooperatives in cocoa and coffee, and support of microprojects by recent graduates or jobless people. The funds do not have a poverty mandate but could be useful for reaching the poor. These funds' present activities reach the poor only to a limited extent. The government is examining ways to improve their impact.

Statistical System

Although extensive poverty data have been collected since 1985, these are not fully used in government decisionmaking. Access to data by Ivorian researchers is limited, although their results could be a valuable supplement to analysis within the government. Some key data such as wage trends and informal sector activities are monitored inadequately or not at all. To ensure that the National Poverty Reduction Plan is achieving its desired results, further monitoring efforts will be needed. An ongoing restructuring of INS provides an opportunity to enhance its poverty focus.

Ecuador

Poverty Profile

The Ecuador poverty report states that, although the oil boom of the 1970s led to unprecedented growth, poverty remains pervasive in this Andean country. The distribution of wealth is highly skewed, and close to 4 million Ecuadorians, about 35 percent of the population, live in poverty. Another 17 percent are vulnerable to poverty; 1.5 million Ecuadorians live in extreme poverty and cannot meet their nutritional requirements even if they spend everything they have on food. Poverty is higher in rural areas, where two out of three poor people live.

The report, which draws on the results of two qualitative studies and a recently completed Living Standard Measurement Survey (1994), stresses that the characteristics of rural and urban poverty are quite different. Rural poverty is associated with lack of education, little access to land, a low degree of market integration, and lack of employment in the vibrant off-farm rural sector. Furthermore, poverty among the many indigenous people, who live predominantly in the rural highlands and the Amazon region, is much higher than for the nonindigenous population. This population group also shows alarming levels of malnutrition and child mortality and has much less education than the nonindigenous population. Urban poverty, which affects 1.5 million people, is linked to a somewhat different set of variables that vary by region. For example, while basic service provision has reached the poor in the urban highlands, many poor in the urban coastal region are without a functioning water supply or sewage system. But the poor in various urban areas also have some characteristics in common. These are, again, low educational achievement, informal sector employment, rented (instead of owned) housing, and low rates of labor force participation by the spouse of the household head.

Poverty Strategy

The report argues that a successful poverty reduction strategy can be based on the following components: basic nutrition and health programs for the poor, programs that strengthen the assets of the poor (labor, land, and housing), and support for a strong and stable demand for labor. The first two components, in particular, will require public resources. Hence, mobilizing resources for social programs and targeted interventions is an essential part of Ecuador's poverty reduction strategy.

Ecuador could raise substantial resources to finance antipoverty programs by eliminating or reducing several subsidies, tax evasion, and tax exemptions; by improving education finance; and by employing targeting tools as a means of reducing the costs of social programs. For example, the large subsidies for electricity and cooking gas, which together account for about 2 percent of GDP, are inefficient and unjust because they do not reach the poor (only 17 percent of the electricity subsidy and 23 percent of the cooking gas subsidy go to the poor). Similarly, achieving a cost-recovery rate of one-half for higher education could finance a 40 percent increase in expenditures on primary education, which would benefit the poor disproportionately. Currently, education finance is dramatically imbalanced, discriminating against the poor with unit costs for higher education about six times higher than for primary education. Finally, although targeting of social programs is a cost-effective means of reducing leakage, it is not widely used in Ecuador today. Among 25 major social programs, only about a third operate with an explicit targeting mechanism.

Creating a basic nutrition and health program. A coordinated effort to expand nutrition programs to reach the most vulnerable groups, young children, and pregnant mothers would bring high returns in the long run for Ecuador. But although chronic malnutrition of children under 5 years of age is at alarming levels (45 percent), the many modest nutrition programs only reached 5.5 percent of the 600,000 poor children below age 5 in 1994. Several of these programs attempt to target, and targeting costs are well invested (for example, leakage to the nonpoor is relatively small). However, the real problem, within financing and implementation constraints, is to reduce the degree of undercoverage. With respect to health programs, recent reductions in real per capita expenditure for the Ministry of Health, the main provider of health services in Ecuador, have plunged the basic health system into a crisis. Many public health posts can no longer provide fundamental services, and the poor have increasingly come to rely on the private sector for health care, which absorbs 12 to 17 percent of the household budget. But not all the poor can turn to the private sector. About half a million persons cannot afford such expenses and are left without help even when they critically need curative care. Appropriate funding for basic health care is a neces-

sary condition for helping many of the poor survive.

Strengthening the assets of the poor. The main assets of the poor in Ecuador are labor, land, and housing. To increase the productivity of labor, it is necessary to improve the quality of primary education and expand the access of poor children to secondary education; attendance at secondary schools is clearly much lower for the poor than for the nonpoor children. Many poor parents do not send their children to secondary school because of the direct private costs of public education (amounting to 4 percent of the household budget of a poor family per child) and the opportunity costs of the children in school who are not able to contribute to family income. However, secondary education can be a way out of poverty, since returns to secondary education are an estimated 10 percent. Financial assistance to the poor, either by reducing the direct costs or by introducing school vouchers, are options for increasing the poor's access to secondary education. Furthermore, helping poor women to enter the labor force can also constitute a route out of poverty for many families. In urban areas, the participation of poor women is constrained by their household duties, especially childcare, and by their limited mobility due to increasing violence.

Land is a determining factor for rural poverty. In rural areas, smaller farmers are very often poorer farmers. However, for many products, these farmers tend to have higher yields than larger farmers. Supporting the existing but informal land market to help increase poor farmers' access to land can increase equity without reducing efficiency. Titling of the many unregistered farms would be an important step toward formal land transactions. Innovative financial schemes such as land grant schemes or agricultural banking for the poor could then be explored to help poor farmers overcome the lack of access to credit. These efforts could be complemented by increasing poor farmers' access to rural markets through infrastructure and extension investments that would bring them closer to the rural market. The report shows empirically that the more farmers are integrated into the rural market, the less likely they are to be poor.

Finally, housing could be strengthened as a productive asset by creating an enabling environment, for example, through legalization of land invasions to help the poor upgrade their homes for small business and other income-generating activities. Traditional Ecuadorian housing credit schemes have benefited only the middle- and upper-middle-income classes, so housing policy needs to be redirected.

Supporting a strong and stable demand for labor. Increasing the demand for labor is related to eliminating the barriers to labor market entry and to achieving macroeconomic growth, particularly if growth finances investments in education to prepare workers for the modern workplace. Ecuador has cumbersome labor legislation: the government interferes with wage-setting in the private sector through a variety of mechanisms, including different minimum wages by sector and region, side benefits, and mandatory wage adjustments to compensate for increases in the cost of living. These regulations act as an entry barrier to employment in the modern sectors because they tax labor. These interventions are responsible for an 8 percent wage differential between the regulated and unregulated sectors. A general equilibrium model shows that a 50 percent reduction in segmentation across sectors and regions would move about 100,000 workers to the modern and highest-paying sector of the economy, significantly improving their living conditions.

The report illustrates the importance of labor-intensive economic growth with a model simulating the relationship between investment levels and education, moderately increasing growth rates, and investing part of the additional public funds in education, which could move more than 250,000 workers into the higher-paying modern sector of the Ecuadorian economy. Maintaining macroeconomic stability, increasing the savings rate, and stimulating the development of nontraditional exports would help restore growth to levels that would make possible a serious attack on poverty.

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Eritrea

Eritrea is located in the northeastern part of Africa. The overall size of the country is 125,000 square kilometers, and the population is estimated to be between 3 million and 3.5 million, including about half a million refugees in Sudan. Three decades of war prior to liberation in 1991 and neglect and deprivation by the Derg regime devastated the country, and decades of lost opportunities for growth have made Eritrea one of the poorest countries in the world, with a per capita income of about US$160–US$190.

Poverty Profile

There has not been a full-fledged consumer expenditure survey in Eritrea yet. The income poverty measures presented here are based on a Rapid Appraisal Survey conducted in 1993–94. Because the survey was conducted so soon after the war, when conditions were still unsettled, the results must be considered preliminary. About 50 percent of households in Eritrea were estimated to be poor in 1993–94, that is, not to have sufficient income or endowments to consume a minimum requirement of 2,000 calories per capita per day, plus a few other essential nonfood commodities such as clothing and housing. In that year, because of drought, 70–80 percent of households received food aid; without it, 69 percent of the population would have been unable to consume the minimum basket of food and other essential commodities. More than half the poor live in rural areas of the highlands; the rest live in the rural lowlands (about 30 percent) and in urban areas. Crop cultivation and animal husbandry account for 60 percent of rural incomes, although livestock income is more important in the lowlands. The rest is obtained from wage, self-employment, and trade. The nonpoor have three to four times more income from crops and livestock: the difference is explained partly by the availability of water and partly by the ownership of cattle, which provide both animal traction on farms and income from livestock products. On average, the nonpoor rural household owns seven livestock units compared with poor households, which own two. The significant difference between the poor and nonpoor, however, is their income from trade and self-employment. On average, nonpoor rural households get eight times as much income from these activities as poor households. Therefore, in this predominantly rural country, opportunities for and the ability to participate in trading and service activities appear to make a critical difference. In urban areas, the poor are likely to be concentrated in low-skill occupations that require little capital and are mainly in the nonformal sector.

Eritrean communities have an unusually high share of households headed by women—about 45 percent—as a result of many long years of war that killed able-bodied men. The proportion of female-headed households that are poor is not different from that of male-headed households, partly because women have more secure access to land and other productive assets than is common elsewhere in developing countries. Communities and extended families also provide support. The war of liberation involved many women actively, increasing their independence and participation in public and community affairs.

Income poverty is only one aspect of poverty. Social indicators tell the rest of the story. Eritrea's social indicators are low: life expectancy is about 46 years (compared with the average of 52 years for Sub-Saharan Africa), and infant mortality is 135 per 1,000 live births (the average for Sub-Saharan Africa is 93). Furthermore, there are significant regional variations in all social indicators. There is a clear urban bias. The net primary school enrollment rate is more than 40 percent in Asmara and Hamasien but between 15 and 25 percent in most rural areas. In some parts of the lowlands, it is less than 10 percent. Child mortality is about 100 per 1,000 births in Asmara but about 300 in Sahil and Denalia. Distance to and lack of facilities are the major determinants of these regional differences.

Even in the few years since independence, access to facilities has improved after years of neglect. (Not a single school or health clinic was built during 1976–91.) Gross primary school enrollment increased from 36 percent in 1991 to nearly 50 percent in 1995. The share of children being covered by growth monitoring and nutrition programs increased from 7 percent in 1993 to 24 percent in 1994, and the child immunization rate increased from practically zero at independence to 25 percent of children under 1 year of age. It will take a few years of sustained effort for commonly monitored indicators such as infant and child mortality and life expectancy to reflect improved health status. But a beginning has been made.

Discrimination in schooling on the basis of gender is generally absent in the cities and the highlands; overall, the share of girls in primary school enrollment is 44 percent. In most parts of the lowlands, overall enrollment rates are too low to indicate

whether there is a gender bias. However, the rate of repetition is much higher for girls, and the rate of continuation is lower. Because of this, it takes two years longer for girls to graduate from primary school. Girls also do not perform as well on achievement tests: while 80 percent of the boys who took the seventh grade national examination in 1995 passed, only 56 percent of the girls did.

The unsettled conditions created a large number of refugees who lived mainly in refugee camps in Sudan. Even after spontaneous return and the formal repatriation and rehabilitation of 25,000 people, about 400,000 refugees remain in Sudan. As much as 25–40 percent of refugee households are female-headed, and all are quite poor.

Poverty Strategy

With the return of peace in 1991, following three decades of war to gain independence, Eritrea embarked on the road to development and poverty reduction. In a short period of time, it has made significant progress in restructuring institutions, establishing key elements of a functioning government, eliminating a number of restrictive policies from the colonial period, and expanding investment in human capital. As a result, economic growth averaged 8 percent in the last two years after contracting more than 1 percent per year during 1985–93. Although, in some ways, Eritrea is still operating in a postconflict reconstruction phase, it is eager to move ahead to the next phase of development. The goal of poverty reduction is implicit in its development policies and programs that emphasize economic growth and the development of human capital.

Because of the small size of the Eritrean economy, significant economic growth and transformation can only take place if Eritrea exploits all opportunities to export goods and services, both traditional and new, and is open to foreign investment. In this effort, Eritrea can take advantage of its strategic location in the northeastern part of Africa, a long history of sea trade through the ports of Masswa and Assab, an industrial tradition, and the skill, knowledge, and wealth of its expatriate community. It should continue to implement and deepen its policies toward a liberal trade regime, the promotion of foreign and domestic investment, and the maintenance of a pragmatic exchange rate policy. It should also rehabilitate critical port and road infrastructure.

Many of Eritrea's new exports (fruits and livestock products) could derive from agriculture. Moreover, the fact that 80 percent of the poor in Eritrea live in rural areas and depend on agriculture suggests that increasing agricultural production and productivity will have a widespread impact on poverty. A chronic dependence on food aid is risky. Even in a good agricultural year, about half of Eritrea's food consumption is from food aid. Although food self-sufficiency at any cost is not the right objective for Eritrea, to the extent that agricultural production can be efficiently increased, it will make an important contribution to the income and food security of the poor.

The database on Eritrean agriculture is, at this time, limited. However, significantly large tracts of sparsely populated land are available for rainfed development in the southwest lowlands. Private development of these lands through granting of leases is probably the best option for increasing agricultural production in the short to medium term. However, it will be necessary to plan this expansion carefully since these lands are grazing grounds for animals owned by pastoralists and agropastoralists and the rivers provide water for their animals as well. A comprehensive land capability and land use plan is necessary. Water is not plentiful in Eritrea, although a full assessment can only be made after the water resources study currently ongoing is completed. The expansion of small irrigation microdams and wells, the testing of improved crop varieties, and the selective introduction of fertilizer, where rainfall patterns justify its application, are the other elements of an agricultural strategy. Since livestock generate considerable income and cushion the impact of a drought, the foremost objective of a livestock policy should be to protect the national herd from major epidemics. Beyond this, a developmental strategy has to be differentiated according to agroecological zones: provision of water points and market information, introduction of forage in farming systems, and development of dairy farming around market towns are options that deserve careful study and experimentation.

Social Sector Strategy

The average attendance at health facilities—less than one visit per person per year—is low, even compared with the average of 1.5–2 visits per person per year for Sub-Saharan Africa. Public spending on health is less than US$2 per person, compared with nearly US$5 on average in Sub-Saharan Africa. The main health problems faced by Eritreans are amenable to primary health care interventions: the top five diseases in terms of life-years lost are perinatal and

maternal diseases, diarrhea, respiratory infections, tuberculosis, and malaria. In addition, the prevalence of HIV infection is higher than thought earlier, presently occurring mainly in urban centers.

The strategy for improving the health status of Eritreans must, therefore, concentrate heavily on improving access, particularly in the rural areas and the lowlands, and on increasing public spending to provide quality care that people will demand. The government has rightly adopted primary health care as the main objective, and the number of facilities and coverage of programs have increased rapidly. It has also instituted a schedule of user charges (with exemptions for those who need them), which should complement the health ministry's resources. But analysis indicates that many important primary health programs, such as malaria and HIV prevention, are inadequately funded. At the same time, public spending on hospitals is higher than justified by the rate of utilization of these facilities for in-patient care. Adequate funding of primary health programs should be ensured, and any expansion of hospitals should be minimal, based on cost-benefit analysis, and designed to sustain basic health services.

As in the case of basic health, the problem facing basic education is primarily lack of access, particularly in the rural and lowland areas. The rehabilitation and building of new schools (which the government has already begun), flexibility regarding the size, location, and capacity of schools, and the provision of adequate recurrent expenditures for teachers, books, and teaching materials are all important for ensuring a good-quality basic education for all children. A second priority is the provision of secondary and technical education. Because social benefits are fewer, there is more scope for cost-recovery at these higher levels of education, a principle that the government has accepted. The shortage of technical skills is evident in both the public and private sectors. The experience worldwide is that vocational training institutions in the public sector are generally ineffective in gauging labor market needs and responding to changes quickly. But Eritrea's special conditions after three decades of war, during which little skill could be accumulated and where the private sector is in a nascent stage, may require some innovative approaches. Therefore, in the first instance, it may be necessary for the government to invest in a few new vocational centers and, at the same time, test other approaches that involve the private sector so that a more appropriate strategy can be developed in the medium term.

Special Issues

The government's strategy for the distribution of food aid has recently changed in the right direction. Recognizing the disincentive effects that free food aid was having on incentives to produce and to work, the government decided to monetize food aid and use the proceeds to provide cash assistance to those who are truly in need and cannot work. Many implementational details of the monetization program are still evolving, but it is important to focus attention on a few critical parameters. First, the price at which the food is monetized and sold to consumers should cover the (notional) cost of imports, as well as the costs of transportation and handling; that is, on average, the price should be close to the import parity price. Otherwise, monetized food will have a similar disincentive effect as free food aid. Second, large-scale trading activities by a parastatal should be avoided; it has been the experience of other countries in the region that such activities are financially costly and that costs are rarely fully recovered, resulting in large subsidies from the budget.

The reintegration of nearly half a million refugees will be a challenging task. Many have returned spontaneously but, for the most part, are waiting to be repatriated. In a pilot phase, the government has rehabilitated 25,000 refugees on nine sites in the southwest lowlands. Based on the lessons learned and the experience gained, the government expects to repatriate the rest of the refugees in the near future.

A land reform act was enacted with the purpose of ensuring all Eritreans equal access to land. The new law makes the state the owner of all land and provides lifetime (and inheritable) usufruct rights to all Eritreans over the age of 18. It replaces a variety of complex local systems of land tenure, some of which may have reduced incentives for improvements to increase productivity. The implementation of the new law on a nationwide basis has yet to begin, and, at present, the allocation of land for housing in periurban areas is the main concern. Because traditional landholding and tenure systems in Eritrea have been relatively equitable, the preoccupation with urban issues may not adversely affect poverty. However, uncertainty regarding the pace of reform may continue to discourage on-farm investment, and the government needs to be aware of this possibility.

Estonia

Estonia's economic transition entailed the twin challenge of managing the reform from a planned to a market economy while adjusting to major external shocks, especially the increase in energy prices and the disruption of trade with countries of the former Soviet Union (FSU). The extent of these shocks caused an immediate decline in living standards, not least because the terms-of-trade deterioration resulted in a loss in purchasing power for the whole country. In addition, the disruption in trade dislocated production activities and destroyed jobs. Even though not enough time has elapsed to evaluate the long-run effects of the ongoing transition on income distribution and welfare, the country's emphasis on increasing efficiency and reducing macroeconomic imbalances has achieved remarkable results in a short period of time. The sharp drops in output, employment, and real wages are swiftly being reversed, creating an environment conducive to sustainable growth. Broad-based growth that leads to real wage increases offers the best hope for sustained poverty reduction in Estonia.

After a cumulative drop of one-quarter in 1992 and 1993, real output began recovering in 1994. Positive growth rates were recorded in both 1995 and 1996. Successful stabilization efforts slowed inflation from 954 percent in 1992, to 36 percent in 1994, and further to 15 percent in 1996. Unemployment peaked at close to 9 percent in 1993 and began falling thereafter. Real wages, after a 40 percent decline in 1992, recovered to around 80 percent of their 1991 levels by late 1995.

The recovery was led by the strong growth in exports to western markets and buoyant foreign direct investment. Owing to the country's liberal trade regime and stable and convertible currency, exports to western markets increased fivefold in dollar terms between 1992 and 1995. By the end of 1995, exports to western markets accounted for almost one-third of GDP. Foreign direct investment rose from US$58 million in 1992 to US$209 million in 1995, averaging 8 percent of GDP during this period.

The outward-oriented economic recovery opened room for real wages to increase gradually toward the levels of Estonia's new trading partners. Between June 1992 and December 1995, the average monthly real wage increased 40 percent, in dollar terms from US$41 to US$260. The open trade policy regime also contributed to the downward trend in inflation. Most of the decline in inflation over the last four years was attributable to the slowdown in price increases in tradable goods. This benefited society as a whole, and the poor in particular, since tradable goods, including food, account for more than 60 percent of household expenditures.

Privatization and the imposition of strict financial discipline on ailing enterprises effectively discouraged labor hoarding, permitting the reallocation of labor to more productive uses. Unproductive jobs were eliminated, and many productive ones were simultaneously created. This enabled significant direct job-to-job flows of workers and relatively short spells of unemployment: almost three-quarters of job seekers found jobs in less than 12 months.

Poverty Profile

The 1996 World Bank report "Estonia: Living Standards during the Transition, a Poverty Assessment" defined poor households as those whose consumption expenditure per equivalent adult was less than 482 Estonian kroon (EEK), the minimum pension in July 1995. The poor constituted almost 9 percent of the Estonian population at the time, or around 130,000 people. Households with the highest incidence of poverty were primarily households with little or no formal income, meaning that its members were either unemployed or underemployed. This central role of the labor market in defining living standards also left vulnerable the households with few income earners relative to the size of the household, with lower levels of education, and located in rural areas and producing for self-consumption.

Household composition. Poverty was more prevalent among households with few income earners relative to the size of the household (households with extended families and many children and households headed by single parents), leaving the old and the young in a particularly vulnerable situation. Poverty among these households also reflected the impact of changing economic conditions on household composition. During the transition, it became more common for young adults to raise children alone (the number of divorces and births outside of wedlock more than doubled between 1989 and 1995) and for pensioners to help family members in difficulty.

Education. Household heads with more years of education had better access to jobs and higher wages. Among the formally employed, households whose head had less than a secondary education had above-average poverty rates, and those in occupations that

required higher levels of education had the lowest poverty rate. Workers with more years of education had better access to jobs and higher relative pay increases. Also, the more-educated workers were less likely to be laid-off and more likely to find a job if they became unemployed. Between 1989 and 1993, workers with university degrees had 27 percent higher relative wages than workers who only attended elementary school.

Rural poverty. Poverty was more widespread and deeper in rural areas. The share of the rural population living below the poverty line was more than two times larger than the urban headcount index. The rural poor tended to be poorer than the urban poor. They had average expenditure levels nearly 45 percent below the minimum pension. This reflected the degree of underemployment in rural areas, where a significant number of farmers were producing mainly for self-consumption. These farmers, however, constituted a small part of Estonia's total population and, consequently, accounted for only 10 percent of the poor.

Gender differences in poverty rates did not appear to be significant, although there were more poor women than men, reflecting the high proportion of females in Estonia's population. The risk of poverty varied across the life span: children and elderly individuals were more likely to be poor than those of working age. Estonians ages 71 and over composed more than 12 percent of the poor. Poverty indicators also varied considerably across regions and between the capital city of Tallinn and the rest of the country, which is almost a corollary of the differences between urban and rural poverty.

Safety Net

Estonia's safety net incorporates cash benefits as well as in-kind assistance. Cash benefits currently provided under the Estonian system include pensions, child benefits (primarily family allowances), sickness, maternity, and other leave-related benefits, unemployment compensation, and means-tested income support. Housing support for lower-income families constitutes an additional cash benefit, although the household itself does not receive cash; payment is made directly to the property owner to cover rent and heating expenses over and above a certain share of household income for a specified maximum floor space. In-kind components of Estonia's safety net include job training for the unemployed and other employment services, and counseling, institutional care, and material assistance administered through the social welfare offices. The vast majority of benefits are paid on the basis of categorical criteria. Only social assistance, which includes both housing support and income support, is explicitly targeted by income.

Estonia's social safety net policy has achieved several of its intended goals: (a) programs have provided minimum support to some vulnerable groups in the population; (b) overall spending has remained fairly stable, both as a share of GDP and in real terms, in an environment of tight budget constraints; and (c) the level of benefits and the eligibility requirements have kept appropriate incentives for beneficiaries, thereby avoiding a problem of "welfare dependence." However, several refinements to these programs are needed to improve the allocation of resources, improve targeting, and increase the poverty reduction impact of social safety net programs.

Poverty Strategy

Broad-based economic growth is the key to poverty reduction in Estonia. Such growth is crucial not just to raising the incomes of the poor but also to providing a fiscally sustainable safety net for temporarily or chronically vulnerable households. Economic growth helps generate the revenues needed to fund the social safety nets that redistribute the benefits of growth. In other words, expanding the social safety net beyond the available fiscal resources endangers the long-term prospects for reducing poverty and improving welfare. Modest social cash benefits today will assure budgetary savings to support investments. Investments will, in turn, generate growth and employment, reducing the need for social assistance programs and permitting the real value of benefits to increase for persons requiring help from the social safety net.

The proposed poverty reduction strategy involves strengthening the safety net by:

- Improving the monitoring of living standards and its link to policy formulation.
- Increasing means-tested social assistance by allowing county-level social assistance offices to allocate funds between social assistance programs according to local needs.
- Decentralizing responsibility for social assistance programs to permit the development of new programs on a pilot basis, possibly involving NGOs, and minimizing budget commitments and demands on the administrative capacity of social assistance offices

- Means-testing child benefits and using budget savings to increase the real value of social safety net benefits. Proposals to increase benefits per child, therefore, need to be financed by shifting resources currently directed toward less-needy families.
- Increasing the real value of unemployment compensation. At the end of 1995, a 50 percent increase in the value of unemployment benefits, at the current level of officially registered unemployment, would cost an additional EEK 13.6 million to the state's budget, less than 1 percent of the budgeted expenditure for 1996, and could be covered with budget savings obtained by means-testing child benefits.
- Examining options for reducing old-age poverty.
- Exploring options for pension reform.

Statistical System

Currently the Estonian Statistical Office collects data from the household budget survey. The data, however, do not play a large role in spending decisions on social cash benefits. These decisions are driven almost exclusively by budgetary considerations. Although this ensures fiscal discipline, it provides little guidance for benefit targeting. More detailed analysis of the household survey data could provide the information needed by policymakers. This is especially important if the Estonian social safety net is to continue relying on categorical benefits. Another important step that the Estonian authorities may consider is improving the household survey itself. Rather than rely on a large sample (2,000 households per month) with a relatively small number of questions per interview, they could rely on a smaller sample of households that receive more attention from the interviewers. This should help increase the response rate and widen the range of questions included in the questionnaires.

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Gabon

Poverty Profile

With a GDP per capita of about US$5,000 in 1996, Gabon is one of the richest countries in Africa. In 1996 the oil sector accounted for about 63 percent of government revenues. The relatively high income per capita masks large inequalities, and some social indicators are comparable to those of lower-income African countries.

Poverty data are scarce for Gabon. This poverty profile is based on (a) national account data to estimate poverty trends during 1960–93, (b) the 1993–94 Household Survey in Libreville and Port-Gentil (almost half of the population), (c) the 1993 National Population Census, and (d) a participatory poverty assessment completed in 1995.

The report uses three relative poverty lines to analyze poverty trends during 1960–94: the first is set at the minimum wage level, the second at two-thirds of the average consumption, and the third, representing an extreme poverty line, at US$1 a day. Estimates based on the first two lines show that the number of poor is high and has diminished little over the period (from 87 and 67 percent, respectively, in 1960 to 83 and 62 percent in 1994). Extreme poverty, in contrast, has declined significantly, from 66 percent in 1960 to 23 percent in 1994.

According to the 1993–94 Household Survey, 9 percent of the population in Libreville and Port Gentil are food-poor in the sense that they cannot meet their daily caloric requirement even if they were to devote all their expenditures to the basic food basket, estimated at 18,000 CFA francs (CFAF) per person per month. Nearly 20 percent of the population in these two cities live below the absolute poverty line, estimated at CFAF 29,000 per person per month. The minimum wage, at CFAF 64,000 per month, constitutes a fair approximation for the relative poverty line; 25 percent of the population in Libreville and Port Gentil live below this line. The urban Gini coefficient reaches 0.5 before private transfers between households, which indicates relatively large inequalities. Joblessness, either because of unemployment or retirement, is closely related to poverty in both cities. Poverty is also associated with low education and households headed by women. Due to high levels of family solidarity, middle-class households have more poor members than households headed by a person below the poverty line.

The 1993 population census shows wide disparities between provinces in terms of illiteracy, housing, and access to potable water. For example, 80 percent in the Estuaire province (including Libreville) have access to potable water compared with less than 20 percent in Nyanga and Ngounié. Nyanga, Ngounié, Ogooué Ivindo, and Ogooué Lolo are the poorest of the nine provinces.

The participatory poverty assessment suggests that access to health and education services are the two prime preoccupations of rural people; those living in secondary towns are mainly concerned with the lack or inadequacy of urban infrastructure, especially the lack of safe water. In Libreville, complaints center around the unhealthy environment, the lack of access roads, and the threat to personal safety due to a perceived rise in crime.

Incentive and Regulatory Framework

Following the 1973 oil boom, real GDP rose rapidly (70 percent during 1973–76). Faced with this sudden influx of revenues, the government decided to follow an expansionist budgetary policy. The public and parapublic sectors became swollen with new staff benefiting from a generous wage policy. At that time, Gabon was at full employment and became a pole for immigration. With its proclivity to invest in projects with poor rates of return and easy access to international financial markets, the country's foreign debt soared 62 percent between 1975 and 1976. This policy raised the cost of living, hindered the development of small enterprises and agriculture, and devastated the country's competitiveness.

A high percentage of the active rural population abandoned subsistence farming to seek work in urban centers. However, the negative impact on rural living standards was partially offset by the government's social policy and by the transfers that migrants sent to rural family members.

Gabon's oil economy collapsed suddenly in 1986, when the price of crude oil dropped 50 percent. In 1995, unemployment reached 30 percent for persons under age 26, reflecting a sharp contraction of the public and private sectors combined with a rapid increase of the active population.

Since the 1994 devaluation of the CFA franc, the government has sought to foster a favorable environment for private sector development. It has improved its trade and fiscal policies and successfully implemented regional fiscal and tariff reforms. The government has reduced the average customs duties,

simplified the tariff structure, and lifted quantitative restrictions. In 1995 it introduced an 18 percent value added tax.

The government has now adopted a modern investments charter and is revising its sectoral codes (petroleum, mines, timber). Other reforms to simplify the tax structure and liberalize the labor market are under way. The government has also begun implementing an ambitious and front-loaded privatization program.

Public Expenditures

There is a striking imbalance between the mediocre outcomes in health and education and the relatively high level of public spending for these sectors.

The health sector presents a demographic and epidemiological profile typical of a poor country. Public health indicators are only average for Sub-Saharan Africa. Morbidity is still mainly caused by parasitic and infectious diseases, and since 1986 nutrition has become a public health problem. Yet, in 1994, public and private spending on health was estimated at US$172 per capita compared with an average of US$14 for Sub-Saharan Africa. The sector is characterized by the lack of a sectoral strategy, weak budgetary planning, and an inefficient drug policy: Gabon imports US$20 worth of drugs per person per year, and these are essentially expensive pharmaceutical specialties that are available only in the main cities. The budget favors curative health and the purchase of expensive equipment. As a result, access to health services is expensive and inequitable. Until recently, there has been a lack of political will to address this issue.

In the education sector, gross primary school enrollment (142 percent in 1995–96) is among the highest in Sub-Saharan Africa, and the participation rate is as high for girls as for boys. Although there are wide geographic disparities, the overall illiteracy rate is low (34 percent). However, the system is highly inefficient: the net enrollment rate in primary school is about 86 percent, and the repeater rate is higher than 30 percent at all levels. In secondary education the gross enrollment rate is 53 percent for the first cycle, but the net rate is only 15 percent. As a result, the education level of the population does not meet labor market demand. The participatory poverty assessment indicates that the poor suffer the most from the social system's shortcomings. These results do not reflect the level of public spending in the sector.

Gabon spends more per pupil than most African countries, although the education budget has been cut repeatedly. In 1994 public spending still reached US$337 per student at the primary and secondary levels. In the absence of a sectoral strategy and efficient budget procedures, budget allocations are simply renewed each year without rigor and control. The government has not yet taken the steps to improve the performance of the system.

Safety Net

In the 1980s the country implemented a generous social protection system for poor Gabonese. The various transfers (including free medicine, food, family allowance, and cash) seemed, until 1986, to have had a positive impact on the poor. However, since then, the system has not been able to function effectively due to insufficient budget allocations and inefficient use of available resources.

The government should reform the social protection system by setting up realistic objectives and providing appropriate budget allocations to meet them. The costly and now inefficient system for identifying the poor (*carte d'indigent*) should be replaced by measures that would increase the poor's ability to respond to economic opportunities, reduce the cost of health and education services, and improve the quality of those services.

Family assistance remains the primary safety net used in urban areas. With urban poverty growing since 1986, solidarity toward village relatives has diminished. Moreover, an increasing number of urban households send some family members back to the village where they can at least feed themselves. The NGO sector is just nascent in Gabon.

Poverty Strategy

The government has taken an active part in preparing the poverty assessment and has recognized the elements discussed here as the main axis of its poverty reduction strategy. It has already implemented some of the recommended measures.

The pattern of growth is not conducive to sustainable poverty reduction; the oil sector creates the smallest number of jobs of all sectors. The poverty reduction strategy calls for diversifying the source of growth toward more labor-intensive sectors (such as forestry, agriculture, and fisheries) through development of the private sector and increased competitiveness.

Unemployment is a key factor in urban poverty. The majority of the unemployed can only be absorbed over the medium to long term if the economy is diversified, market mechanisms are more efficient, and the education system is improved. However, short-term relief measures should be adopted, such as labor-intensive public works, microcredit facilities, and training programs for the unemployed.

To reduce poverty in small towns and rural areas, strategies will have to be adapted to the degree of isolation of each area. In areas with adequate transportation facilities, the income of the poor could be raised by enhancing productivity through the diffusion of appropriate techniques, inputs and equipment, and access to credit. In relatively remote areas, the major constraint to raising the poor's incomes is the marketing of their products, implying a need for better transport facilities. With the Bank's assistance, the government is mapping the country's current production potential, population density, and state of infrastructure before defining a transportation strategy and undertaking priority investment and maintenance programs. In isolated areas, investment costs are high in relation to expected benefits. Poverty-reduction activities should therefore focus on making minor investments to improve access to safe drinking water, primary health care, and basic education.

Better education will be necessary to reduce unemployment and poverty. The government should define an education sector strategy that would include, inter alia, measures to reduce the cost of schooling and to limit overcrowding in primary urban schools.

Improving basic health will require that the government vigorously pursue efforts to promote preventive health, especially access to safe water and urban sanitation, and a sound drug policy, including the introduction and countrywide diffusion of generic medicines. The 1995 ordinance providing the appropriate legal framework for sector reforms should be implemented without further delay.

Better functioning of both sectors will require more efficient use of public spending and civil service reform. The Bank is currently helping with a social sector public expenditure review, but the civil service reform is lagging.

Statistical System

To date, the government has not allocated sufficient resources to increase its capacity to collect and analyze poverty-related data. The Statistics Department of the Planning Ministry should define a plan to improve the national statistical capacity, including a household survey program. The data collected could enhance the contents of the existing social indicator table *(tableau de bord social)*. Given the lack of data on health and nutrition, a Demographic and Health Survey is also recommended.

Guinea

Poverty Profile

Guinea is one of the poorest countries in Africa. Although its per capita GDP, currently estimated at US$532, is slightly above the average for Sub-Saharan Africa (US$520), the UNDP's *Human Development Report* has for several years ranked this country last among some 160 countries. Yet the country is richly endowed with agricultural, mineral, and energy resources. Depending on the chosen poverty line, on the basis of data from an integrated household survey, 40–57 percent of the entire population may have lived in poverty in 1994. This assessment of income poverty in Guinea is based on the 1994 Integrated Household Survey and primarily uses two poverty lines set by the government: an upper poverty line of 93,713 Guinean francs (GNF) and a lower one of GNF 172,283. The latter is, in fact, the estimated cost of achieving the minimum daily requirement of 2,000 kilocalories. Life expectancy at birth is estimated at 45 years. Roughly 77 percent of the adult population is considered illiterate. This situation is mostly blamed on past policy failures and on limitations of the current policy stance.

Even though urban poverty is significant, poverty in Guinea remains a rural phenomenon. In terms of natural regions, Upper Guinea is the poorest, followed by Middle Guinea and Lower Guinea. Forest Guinea and Conakry represent the two least-poor regions of the country. This regional ranking stays the same regardless of the poverty line used or the poverty dimension considered (incidence, intensity, or severity).

Traditional land tenure systems in Guinea appear to involve severe gender bias and discrimination against certain castes within the traditional society. In areas such as the Fouta Jalon, the two groups that suffer the most from this system of land tenure are women and the descendants of captives. The women are doubly disadvantaged because they may only borrow land indirectly through a male, and it is a male's responsibility to distribute land between members of his family. Even when women succeed in borrowing land, they only cultivate less-fertile and smaller areas.

Incentive and Regulatory Framework

The initial development strategy driven by the public sector led not only to poor aggregate growth but also to undesirable structural changes in the economy. Increasingly, private sector activities moved into the informal sector, conducting their business through parallel channels. While the official sector relied on mining exports for its income and foreign exchange, the informal sector depended more on clandestine exports and remittances from abroad. The agricultural incentive structure led to a virtual cessation of production for official markets. Thus Guinea went from being a major exporter of agricultural products to being a major exporter of minerals and a net importer of food.

A military coup in 1984 brought a new regime to power and the establishment of the Second Republic. The new program was seen as the only solution to the extreme failure of centrally planned economic development in Guinea. It produced encouraging results in its first five years (1986–90). A key component of this reform was a substantial devaluation of the national currency in early 1986. This devaluation, which brought the official exchange rate in line with that of the parallel market, also marked a shift from a fixed to a managed float regime. This was a very important step in view of the fundamental role played by the exchange rate in the country's competitiveness. As a result of this improved incentive structure, export value increased about 16 percent between 1986 and 1989. Most of this increase emerged from the nonmining sector. During the same period the economy grew about 4.5 percent in real terms and about 2 percent in per capita terms. This growth was more concentrated in smallholder farming and in the service sector. Furthermore, inflation dropped significantly from 72 percent to approximately 28 percent.

The second phase of the reform program proved more difficult than the first and coincided with political developments that may have been a complicating factor. Starting in 1991 the pace of implementation slowed significantly. Some positive results were achieved, however. Several nonviable projects were deleted from the government's public investment portfolio, while the distribution of petroleum, water, and electricity was privatized. The inflation rate was reduced from 19 percent in 1990 to 7 per-

cent in 1993 and further in 1994 to about 4 percent. Nonmining revenues increased from almost 5 percent of GDP in 1988 to about 7 percent in 1994.

Public Expenditures

Work done in the context of the public expenditures review reveals that the government has not yet succeeded in developing a viable fiscal framework. This stems from the excessive reliance on mining revenues and foreign aid for the financing of public expenditure. Both these sources of financing are deemed very uncertain. Thus there is a need for the government to diversify its tax base.

Although public health expenditures as a share of total expenditures have been fairly constant, they have been declining at an alarming rate in real terms over the past several years. The decline in public financing in real terms and the imbalances due to an insufficient and declining current nonsalary budget limit the effectiveness and efficiency of the sector. In response, the government in 1995 increased the current budget for health from 3.9 percent of the total budget to 5.4 percent. But despite the increase, the current budget for health remains inadequate because of the large proportion of funds used for salaries (94 percent in 1994) and incomplete budget implementation.

In the educational sector, the shares of primary education in the budget started to decline, from 51 percent in 1992 to 42 percent in 1993. Furthermore, shares of actual expenditures on primary education were lower than budget shares for both years, indicating that primary education did not receive disbursement priority. In contrast, the share of tertiary education in the budget increased significantly, from 25 percent in 1991 to 33 percent in 1993. The actual shares for both years were higher than the budgeted shares, and expenditures in 1993 on tertiary education exceeded expenditures on primary education by GNF3.6 billion. This has led to significant inequalities in unit recurrent cost, which are 54 times more in higher than in primary education. This trend will be difficult to overcome, although the government has expressed its commitment to focusing on primary education and disadvantaged groups. Noneconomic reasons probably account for the staying power and expenditure share of higher education institutions.

Safety Net

In Guinea a full picture has not yet emerged as to the identity of appropriate target groups nor the extent and effectiveness of the traditional safety net. It is, however, commonly held that the handicapped, old people living alone, homeless children (particularly in urban areas), and some castes in rural areas are the most vulnerable. But no statistical evidence is available to guide social planning. Some background reports to the *Lettre de politique de développement humain* also list among the vulnerable small farmers, rural women, the urban unemployed, and some microentrepreneurs in the informal sector.

At this stage of the Guinean experience, the following issues should be investigated in order to factor the results into the next policy adjustment: What are the target groups and their coping mechanisms? What is the nature and the effectiveness of the current social security system? To what extent is the traditional system of solidarity down, and are there regional variations? What is the potential role of intermediate organizations such as NGOs, municipal governments, and organized local communities? (The institutional capacity of these entities as well as their willingness and ability to work with the central government should be carefully assessed.) What political factors would affect the feasibility of such mechanisms?

Poverty Strategy

Past and more recent performance in living standards reveals that much remains to be done to improve the quality of life for the majority of Guineans and particularly the most vulnerable. Given this objective for public policy, and the fact that overall welfare is fundamentally determined by efficiency and equity considerations in the allocation of resources, the proposed poverty alleviation strategy is a two-pronged approach that advocates the formation of social capital along with the promotion of broad-based economic growth in order to create productive opportunities for the built-up stock of capital.

It is recommended that growth-enhancing policies be pursued at both the macro and sectoral levels to address some structural imbalances in the economy: weak capacity of the private sector, persistence of macroeco-

nomic disequilibria, low productivity of the agricultural sector, and lack of diversification of the economy.

On the equity side, it is recommended that the government deal with both regional disparities and gender differentials. To achieve its equity objectives and promote broad-based human capital development, the government is seriously considering the restructuring of public expenditures recommended in the current public expenditure review.

Given that the majority of the people draw their livelihood from the agricultural sector and that poverty in Guinea remains an overwhelmingly rural phenomenon, it is recommended that emphasis be put on rural development. The government lacks a coherent strategy in that sector.

Investments in the social sector should be aimed primarily at expanding access to basic education, with a special focus on women, improving the quality of education, and increasing access (particularly for rural populations) to essential health services. The largest health policy problem for the Guinean government is not its sectoral strategy, which is basically sound, but rather the implementation of the strategy and the timetable set for its completion.

It is useless to design a strategy that cannot be implemented successfully on a sustainable basis. The success of such an implementation strategy depends on the soundness of the structure of incentives (social and otherwise) and of the information policy underpinning the whole process. The information policy should ensure wide dissemination of reliable information on the life of society. Fundamentally, the implementation strategy should enable key stakeholders to play their roles effectively.

Statistical System

The first integrated household survey was conducted in 1993–94. Limited local capacity makes both the sustainability of poverty monitoring and the effective use of data and analyses uncertain. Yet poverty monitoring remains vital, both to inform public policy and to monitor performance. Therefore, with respect to sustainability, donor support will continue to be necessary for some time. With respect to policy impact, there is a need to learn from past mistakes and build new processes. Experience in other countries suggests that adopting more participatory approaches may enhance the sense of "ownership" and encourage the inclusion of social issues on the agendas of decisionmakers.

This may be done in several ways. Quantitative data collection may be complemented with qualitative surveys to provide sociocultural data and give voice to the poor and vulnerable. A broad range of stakeholders should be involved in both the design of poverty-monitoring tools and in the discussion and analysis of the data collected. This should help bring social concerns to the attention of policymakers and create greater demand for better policies. But it is not just data and analyses that need to be broadly debated. The same is true for the public policies that the data and analyses seek to inform. Thus it remains critical that the donor community emphasize, in the context of dialogue with government, civil society, and other actors, the importance of placing poverty at the center of government's priorities.

Hungary

Poverty Profile

Two factors have led to an increase in incidence of poverty (headcount) in Hungary: a decline in overall national income and a more unequal distribution of income. Poverty in Hungary is "shallow," which means that incomes are densely concentrated around the poverty line. Therefore, a small increase or decrease in income levels can lead to a substantial change in the incidence of poverty. Growing income inequality has also played a part in the rising incidence of poverty. The poorest 10 percent of the population has suffered the largest decline in real income.

Hungary does not have an official or even a widely used poverty line. Within the benchmarks used for the social transfer system, only the minimum pension has a poverty connotation. It is also used as the basis for various social assistance programs. The minimum pension in 1993 was worth only 73 percent of its real 1989 value and is used in this analysis to identify the very poorest individuals in Hungary. There is a strong tradition in Hungary of using relative poverty lines, often set as a fraction (one-third, half, two-thirds) of mean income or expenditure. This approach is also used.

Income from employment, self-employment, and business (but primarily wage income) is the main contributor to individual and household income. Of the sources of household income, employment income (wages) was already the most unequal, and its dispersion across income groups increased markedly in the transition years. Aggregate labor incomes declined almost as much as the decline in GDP during 1989–93, but the decline was much more a function of job losses than of real wage declines. As such, individuals who kept a regular job fared reasonably well, particularly insofar as formal sector jobs provide access to second jobs, an additional source of income. Highly educated employees in private sector companies, often associated with foreign investment, have seen substantial real wage gains. In contrast, less-educated and semiskilled workers and public sector employees have experienced real wage declines. But the transition has affected most severely the unemployed, casual workers, persons on extended childcare state support, and persons who have withdrawn from the labor force altogether (often on disability pension arrangements). Their access to regular wage income has essentially ceased.

Among socioeconomic groups, the deepest poverty is among households whose head is unemployed, temporarily employed, or dependent on childcare benefits as the main source of income, about 5 percent of the population. Approximately one-fifth of such households live below the minimum pension. Poverty among pensioners is slightly above average, but not serious. Very elderly female pensioners living alone, however, are among the poorest. In households affected by unemployment, poverty is deeper if the head of household is unemployed than if another member of the household is unemployed. If the head is unemployed and does not receive unemployment insurance benefits, the incidence of poverty is very high: more than 40 percent of such households are below the minimum pension.

Demographically, the incidence of poverty is lowest in nuclear households with one or two children. It rises steadily with the number of children and is especially deep in households with two adults and four and more children and in households with three adults and three and more children. Among these households, one in five lives below the minimum pension. Poor children live primarily in villages and in households whose head is poorly educated and does not have more than a temporary attachment to the labor market. This indicates the likelihood of intergenerational poverty. Hungary displays the normal inverse U-shaped life-cycle pattern of poverty, but the age effect is stronger among the young than the old, reflecting the relative well-being of pensioners and the high unemployment rate among the young. There is a distinct gender dimension to poverty. Poverty is deeper among female-headed households, especially if they are single adults with children.

Regionally, Budapest has the lowest incidence of poverty, while the predominantly rural north and south plains have the highest incidence. This disparity is consistent with the finding that poverty is deeper in villages than in cities.

Safety Net

Hungary offers a generous array of cash transfer programs. The transfer system includes contributions-based social insurance, income supplement entitlements, and means-tested social assistance. In 1993 cash transfers were widely distributed in Hungary, benefiting no less than 7 million individuals and 91 percent of households. Of the six transfers examined, pensions, family allowance, and social assistance

were found to benefit the largest number of households. Pensions alone reached 52 percent of households, and the family allowance reached 44 percent of households. One of the most striking findings was the uniformity of the aggregate value of cash transfers across households. (Although this was not an unexpected outcome for some programs, such as pensions and family allowance, because of the design of those programs, such a flat distribution should not occur with means-tested programs like social assistance.)

As the share of labor income in aggregate disposable household income has declined in the transition years, cash social transfers that, in the aggregate, maintained their real value through 1993 have become even more important. In 1993 they provided around 38 percent of gross household income, accounting for 20 percent of GDP. In the past two years, public expenditure on cash transfers has fallen, and because the number of recipients has remained largely unchanged, benefit amounts have declined. Different cash transfers have played different roles during the transition, and some have been more effective than others at preventing poverty. In general, social insurance-based transfers tied to previous wages and designed to replace wage income (pensions, unemployment insurance benefits, and the childcare fee) have been most effective at maintaining incomes, largely due to the size of the program and the high value of payments. (These transfers alone account for 15 percent of GDP.) Social assistance has been less effective at alleviating poverty, due primarily to poor targeting and inadequate amount of transfers for those most in need.

In a static sense, cash transfers have prevented many households from falling into poverty. Indeed, cash transfers have held about 60 percent of households above two-thirds of mean household expenditure, or 45 percent if pensions are excluded. However, because of their wide distribution and relative "blindness" to need (or household income level), cash transfers leave many transfer-recipient households in poverty. More than one-quarter of households that receive social transfers remain below the poverty line.

Of considerable interest, as a counterfactual both to the recent past and to the present time when expenditure reduction is needed for macroeconomic stabilization, is the extent to which cash transfers could be more effective poverty alleviation tools. (It is acknowledged that they have other important objectives.) It is clear that they could do a great deal more to help the poor. There are two fundamental aspects that prevent more effective poverty alleviation:

- There are too many beneficiaries, but there are also unintentional exclusions, mainly from discretionary (social assistance) programs. Programs would do well to be more narrowly focused (targeted).
- Because of the large number of beneficiaries and the flatness in their distribution (with respect to household income), cash transfers are inadequate when they are most needed. Benefits remain largely unreconstructed from the past, when there was little income differentiation and uniform payments made sense. That is no longer the case, and the level of benefits needs to be much more carefully tied to need.

Poverty Strategy

Dealing with shallow poverty. The appropriate policy response to the phenomenon of shallow poverty is complicated because people in this poverty category are a heterogeneous group—included here are some pensioners, low-paid employees, some of the unemployed, and some of the households with a large number of children. The appropriate policy responses for each of these groups differ. Moreover, evidence suggests that the movement of people (households) in and out of shallow poverty is substantial, and incomes around the higher poverty line are very close together. Differentiating people at this level of income has little validity.

The resumption of economic growth, creating new jobs and generating productivity-based real wage growth, would be an effective cure for much of the population in this income range. In addition to benefiting individuals active in the labor market, it would probably attract discouraged workers back into the workforce and provide a revenue base for higher pay-as-you-go pensions. Beyond this, however, specific policy interventions in the form of reformed cash transfers could be needed for large families.

Households with three or more children are overrepresented in shallow poverty. This number of children is closely correlated with the low educational level and poor labor market status of the household head. As such, the number of children can also be used as a proxy for other variables that are closely associated with poverty but may be difficult to use as a characteristic for targeting. This interaction between many children in the family, poor educational attainment, and poor labor market status creates intergenerational poverty. As a poverty group, these

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households should be high on the priority list of Hungary's policymakers.

The family allowance is the main cash transfer program for preventing poverty among children; it has clearly made an important contribution to this goal in recent years. But previous research has shown that the family allowance can do even more, and many recommendations have been forwarded to improve its targeting. (The recommendations have focused on taxing the family allowance, targeting by categorical indicators, using means tests, and applying a combination of these.) This report confirms that the family allowance could play a much more critical role in alleviating poverty. Targeting the family allowance more effectively could virtually eliminate poverty below the higher poverty line.

Measures approved by parliament in 1995 (Act CXXII) tackle universal entitlement to the family allowance for the first time and attempt to target the transfer to needier households with children. The retention of the family allowance for all families with three and more children is a particularly important feature of the reform. These measures represent a major step forward.

Helping those in deep poverty. Among the pockets of deep poverty, one group is particularly vulnerable: the long-term unemployed who have exhausted their wage-related unemployment insurance benefits and have been unable to find a job. It is unlikely that economic growth will lift these people out of poverty without other policy interventions. This has been the experience of Western Europe. In theory, the long-term unemployed who are active job seekers are entitled to a means-tested social assistance program, introduced in 1993 for this particular target group. Yet the level of payment, up to 80 percent of the minimum pension, is a very modest amount and insufficient to have any meaningful impact on severe poverty. This program needs urgent review.

Pensioners are a particularly important population group, numbering almost 3 million. Cash transfers paid as pensions have a significant absolute and relative impact on poverty: they keep more than 60 percent of recipient households out of poverty. But this comes at a high cost, currently borne by the working population, and it leaves one group of pensioners—elderly women—in deep poverty. While still meeting their other objectives (income smoothing in old age and mandatory saving), pensions could be made to combat poverty more effectively. One mechanism would be to raise the level of the state-provided minimum pension and ensure that it becomes a genuine minimum such that no one entitled to a pension would receive less. This scheme could easily be affordable without any additional expenditure if the value of state-provided pensions received by top income households (pensioners) were reduced.

GYED and GYES (childcare fee and childcare allowance) were merged in April 1996 and became contingent on means tests, whose income thresholds would be similar to the family allowance. The replacement allowance is equal to the minimum pension. The analysis in the report finds women on childcare-leave among the poorest, and although GYES is one of the most effective programs at reaching the poor, its benefit level is insufficient to lift these families out of poverty. Some GYED and GYES recipients will return to work, assuming that they have a job to return to and someone to take care of their children. In this case, the income and expenditure outcome would be positive. For those who do not (cannot) return to work, the poorly educated, and low skilled, the situation for some (especially single parents) could deteriorate. Additional interventions might be necessary.

Hungary's social assistance programs are the least effective of all cash transfers at alleviating poverty. Given their function as the last layer of the social safety net, this is a serious failing. The programs suffer from two major problems: benefit leakages and omissions, and low-levels as well as large variations in payments. Too many people are currently receiving too little social assistance to ensure any meaningful poverty alleviation where it is most needed.

Some of the shortcomings of the social assistance system are embedded in the design of the 1993 Social Service Welfare Administration and Social Services Act (or, the Social Act). There are three basic problems with the 1993 Social Act: the high income ceiling, ineffective and outdated standards for assessing eligibility, and lack of a national minimum level of support (only local minimums exist). What exists, therefore, is a mixture of some modern, western approaches to social assistance, overlaid on subjective, case-by-case eligibility criteria that are remnants of the previous system.

The categories of citizens entitled to a nationally mandated social assistance program could be extended to include others with a high probability of belonging to poor segments of society. Benefits should then be set at levels that lift the beneficiaries above the lowest poverty line, without creating undue disincentives to work. The system would have to be reasonably coherent and administratively simple so that benefit levels could be made more sub-

stantial and the potential target group reached more effectively. At the same time, the income ceiling governing eligibility could be lowered. A maximum of twice the minimum pension and possibly only 1.5 times it (preferably on an equivalency rather than a per capita basis) would be appropriate.

Statistical System

The government has invested considerable effort in a robust and comprehensive database. This study uses two household data sources: the 1993 Household Budget Survey (HBS) and the 1992–94 Household Panel Survey (HPS). The 1993 HBS, which is the main data source, forms part of a tradition of budget surveys undertaken by the Central Statistical Office since the early 1950s. The surveys are conducted every two years, and 1993 is the first HBS that fully incorporates western economic concepts. The 1993 sample is about 9,000 households, selected in a two-stage stratified design and covering the whole non-institutional population in Hungary. Although not possible to quantify, the HBS probably fails to capture some of the very poorest, namely the homeless. This is a common problem with income and expenditure surveys. The HPS's main advantage is that it follows the same households over time, thus permitting a study of the dynamics of poverty. It is this feature of the data that is used in this report. The drawback is that the sample size is only 2,000 households, so that the amount of disaggregation in the analysis is limited.

India

Poverty Profile

Poverty imposes an oppressive weight on India, especially in the rural areas where almost three out of four Indians and 77 percent of the Indian poor live. Although poverty was reduced during the past four decades, it remains painfully high.

Because of India's rapid population growth, even that advance, however, did not reduce the absolute number of poor, which increased from around 200 million in the 1950s to 312 million in 1993–94 (according to the most recent Five-Year Survey). This leaves India with the largest concentration of poor people in the world, particularly in the villages with fewer than 5,000 people, where 60 percent of all Indians live. Staggering as the overall numbers remain—240 million rural poor and 72 million urban poor—they do not tell the full story of change. Social indicators of well-being, for instance, record a history of progress that has, like the decline of poverty itself, been steady but slow.

Among those indicators, three illustrate this point. Infant mortality rates, as one example, fell from 146 deaths per 1,000 births in the 1950s to 80 at the start of this decade. Nevertheless, the Indian rate is still high, and two Indian states—Orissa (124 per 1,000 in 1991) and Madhya Pradesh (117 per 1,000 in 1991)—even recorded proportionally more infant deaths than the average for Sub-Saharan Africa (104 per 1,000 in 1991). Life expectancy at birth, now twice the 30 years that was the Indian average in 1947, remains well below that of China (69 years). Adult literacy rates for Indian males (64 percent) and for females (39 percent) in 1991 were almost identical to those for Sub-Saharan Africa and far behind those for China—96 percent for men and 85 percent for women—10 years earlier.

What is poverty? In India, poverty is officially linked to a nutritional baseline measured in calories (food-energy method). The Planning Commission defines the poverty lines as a per capita monthly expenditure of Rs 49 for rural areas and Rs 57 for urban areas at 1973–74 all-India prices. These poverty lines correspond to a total household per capita expenditure sufficient to provide, in addition to basic nonfood items, such as clothing and transport, a daily intake of 2,400 calories per person in rural areas and 2,100 calories in urban areas. Individuals who do not meet these calorie norms fall below the poverty line.

Evolution of poverty in India. A recent World Bank research project assembled and analyzed 35 rounds of the National Sample Survey Organization Household Survey, covering a period from 1951 to 1993–94. These national household surveys are suitable for tracking the poor's living conditions because the consumption data are reasonably comparable.

The most recent (1993–94) household survey, conducted by the National Sample Survey Organization and based on the poverty lines calculated by the World Bank, reveals that almost 37 percent of India's rural population and 31 percent of its city dwellers lived in poverty, for a national average of 35 percent. What is important is that as average living standards rose during the 40 years after 1951 and particularly after the mid-1970s, the poor did not get poorer.

The magnitude of decline in poverty of the last two decades is significant but not dramatic. Although the decline of poverty since the early 1970s has been sizable (from an incidence of 56 percent to 35 percent in 1993–94), India's progress in fighting poverty has been modest when compared with that of some of its Asian neighbors. Between 1970 and 1993, for example, the proportion of Indonesia's population living in poverty dropped from 58 to 8 percent, an annual decline of nearly 10 percent.

As of 1993–94, India's poverty continues to be predominantly rural, although rural poverty declined faster than urban poverty during 1951–88. Moreover, the decline in national poverty was driven mostly by the decline in rural poverty, which is not surprising given that 74 percent of India's population lives in rural areas. Many studies suggest that the poor perceive themselves to be better off now than in previous decades. However, these studies also point to pockets of increasing impoverishment.

Who are the poor? Factors such as population density, ecological conditions, and the availability of irrigation and transport account for some of these differences among India's states and even within them. Other conditions affecting the rural poor—gender, literacy, landownership, employment status, and caste—create a more consistent pattern. Thus an illiterate rural woman, a member of a scheduled tribe or caste, and a person living in a landless household or dependent on wage earnings all face a significantly higher-than-average risk of poverty.

The incidence of poverty was highest of all among the landless wage earners who provide largely unskilled labor in markets where the prevalence of long-term contracts has been declining and wages remain too low to lift casual laborers from the bottom rungs

of the ladder. Again, rural female laborers are more likely than men to depend on daily wages from manual employment. For every 100 women thus employed, there are only 85 males earning their living in the same marginal way, even though men outnumber women in India by a ratio of 1,000 to 929. In terms of earning power, men are more than twice as likely as women to hold salaried jobs in the large and medium-size towns that are increasingly important centers of economic life in the Indian countryside.

While economic inequality—as measured by the Gini coefficient—within regions varies little from the poorest regions to the more fortunate, the Gini coefficient does not capture the gender and social inequalities that persist in India. These inequalities severely constrain the extent to which certain groups in the population are able to participate in and benefit from the process of economic growth.

Incentives and Regulatory Framework

The reforms India initiated in 1991 hold the promise of making considerable improvements in the living standards of the country's 300 million poor. During the past few decades, India's inward-looking and public sector-driven industrialization strategy led to rates of growth and poverty reduction far more modest than those witnessed elsewhere in the world, particularly in Southeast Asia. The economy has responded well to the reforms, and the government has made it an explicit objective to accelerate the development of the country's human resources. The last five years have shown the rates of growth that India could achieve with market-oriented development policies and a better integration with the world economy. Much remains to be done to sustain this growth. Reforms are particularly needed to reduce the country's persistently high fiscal deficits, overcome its tremendous infrastructure problems, improve the efficiency of its financial system, and liberalize parts of the economy that remain heavily regulated, such as agriculture, small-scale industry, and urban land markets. By maintaining its commitment to economic liberalization and redirecting toward infrastructure, health, and education the large resources now absorbed by subsidies for power, irrigation, and fertilizers, India can give new impetus to its long battle to reduce poverty.

Safety Net

There is little evidence that antipoverty programs have improved the living standards of the poor commensurate with the significant resources allocated to such programs. Although many of the poor do receive the benefits of these programs, many of the poorest people do not, while many of the nonpoor do. There is a consensus that public works programs have been among the most successful attempts at reaching the poor.

India urgently needs to formulate an antipoverty strategy that is fiscally sustainable and more finely targeted to those who truly cannot benefit from the opportunities offered by growth. To increase their cost-effectiveness and extend their outreach to the very poor, safety nets need to be targeted to those who either cannot participate in the growth process or face continuing exposure to risks outside their control. Rural households are largely uninsured against agricultural yield shocks, for example. Effective safety nets that insure the rural poor against income fluctuations, such as public works programs, are essential to overcoming an important market failure.

Poverty Strategy

In the half century since its independence, India has accomplished many notable social and economic achievements. Among these are the eradication of widespread famine, a reduction in population growth, some lowering of caste barriers to economic opportunity, and the creation of a large pool of technical and scientific talent. Although it has also managed to reduce poverty in that period, only since 1975, when growth accelerated, has the decline been fairly steady. The pace, moreover, remains both slow and uneven—faster in the southern states than the northern ones and more likely to empower men than women. Government efforts to reduce poverty through direct interventions have yielded mixed results. Many of those programs, in fact, have missed their supposed target—the poor—and delivered their benefits to the economically more advantaged. As India moves ahead with the economic liberalization that has yielded a higher platform for growth and therefore has the potential to achieve a higher level of welfare, it has an opportunity to reexamine its approach to reducing poverty.

The Centrality of Growth

The last five years have shown the rates of growth that India could achieve with market-oriented development policies and a better integration into the world economy. This is a promising development because the last few decades have shown the extent to which the poor stand to gain from an acceleration in growth. Growth widens opportunity, provides the resources needed to invest in human development, and creates the foundation that will increase returns to human capital—and thus families' willingness to send their children, including girls, to school, to have fewer children, or to invest in their future in multiple other ways.

Priority for Human Capital

Neighboring countries in Asia that have made a point of combining pro-growth development policies with investments in the health and education of their people have seen economic growth and poverty reduction follow. India, however, has not accorded sufficiently high priority to the education of the poor, and 33 million of its 105 million 6-to-10-year-olds are not in school. These youngsters are not offered the opportunity to develop the skills needed for upward mobility. Along with the neglect of primary education, gender discrimination condemns a much greater proportion of girls and women to illiteracy and ill health. Reducing gender inequality among the poor requires a determined effort to improve health care for women, and maternal health care in particular, and to provide basic education. India's health system needs to put a new emphasis on basic care. Doing so not only will improve the life span and well-being of poor women and their ability to determine what family size they want but also will contribute to the economic health of their families and, consequently, of India's society. And since poverty is not the only source of India's gender disparities, a determined government effort to eradicate such disparities is urgently needed.

Statistical System

The reduction of poverty has been a major concern of India's government since independence in 1947. As such, the analysis of poverty enjoys a long-standing tradition with an extremely rich literature and database. India has one of the longest series of national household surveys—spanning more than 40 years—suitable for tracking living conditions of the poor over time. In many respects, India has an exceptional tradition of data collection and has pioneered many of the techniques of data analysis that are common currency throughout the world. However, access to household survey data remains highly restricted. An enormous number of urgent questions, such as those relating to the incidence analysis of public expenditure, could be answered and thus inform policy in the future if such data were accessible.

Lao PDR

Poverty Profile

Lao PDR is distinctive in several ways: it is landlocked, it has a small population of approximately 4.5 million people relative to its land area, and it is poor by Asian standards, with GNP per capita estimated at US$280. A recent World Bank study on social development in Lao PDR analyzed the first national survey of consumption and social indicators to establish a baseline profile of the poor. The incidence of poverty in Lao PDR is 46 percent, with a large urban-rural differential: 53 percent of rural individuals and 24 percent of urban individuals are poor. The south has the highest regional incidence of poverty (59 percent) and the most severe poverty, coincident with unfavorable nutrition and health indicators. High average incomes and modernized farming in the south create sharp disparities between the poor and the better-off. Nationally, farmers are the poorest occupational group, followed by private and public sector employees. Families of self-employed people show the lowest poverty, consistent with the opportunities newly open to entrepreneurs in a transition economy. Income distribution is comparatively equal (0.32 Gini coefficient), as would be expected in a low-income, agricultural economy.

Incentive and Regulatory Framework

As Lao PDR continues to register high rates of GDP growth, the distribution of the benefits of growth, as of 1992–93, strongly favors urban areas, thus raising the prospect of unbalanced, less-equitable development in a region of the world widely known for its rapid and equitable patterns of growth. This emerging challenge to the goal of "social development" in Lao PDR does not appear to have strong macroeconomic causes. Macroeconomic stability has been sustained, with clear benefits to growth and incomes. Recent reforms of taxation (repeal of the land tax, for example) have removed potentially heavy burdens on the poor. Exchange rate management has been prudent overall, avoiding strong real appreciation of the kip (which would benefit better-off consumers of imports). Some deterioration in the internal terms of trade may have affected farmer incomes, but only the better-off sell their production. Subsistence agriculture is dominant in 50 percent of rural villages. The fiscal incidence of public expenditure by province is progressive, which means that low-income provinces receive a higher net flow of public resources on a per capita basis than higher-income provinces.

Public Expenditures

Public programs designed to reach rural households were analyzed for their targeting of poverty using the household and village surveys as well as an incidence analysis of public expenditures on education. The agricultural sector can be characterized as an extensive but low-productivity system. More than 90 percent of income-earning adults make their livelihoods in agriculture, and landholding in Lao PDR is nearly universal. The range of landownership is modest, with the lowest quintile (20 percent) of income distribution owning 1.29 hectares on average, and the richest quintile owning only 1.72 hectares. Irrigation is rare, as is double cropping, and the quality of land is highly variable. The well-known low productivity of Lao agriculture is displayed by the absence of clear relationship between type of land (irrigated, dryland, both) and household income. Only size of landholding shows such a relationship, indicating that with more land, a typical Lao family would be better off.

The reasons for low productivity are, on the supply side, that extension services are widely available but of low quality. Most Lao farmers do not use modern inputs (only 13 percent use fertilizers, and 6 percent use pesticides). On the demand side, the accessibility to rural roads is poor, with half of Lao villages inaccessible by truck during the rainy season. The poorer households tend to live in villages that are never accessible by truck. Market access is also quite limited, with more than half of Lao villages located more than 10 kilometers from the nearest market. The low-input, low-output character of Lao agriculture places a major obstacle in the way of balanced growth in urban and rural areas.

In both education and health, there is abundant evidence from the surveys that primary schools are widely available, that children are enrolled, and that private medical practitioners are present in most villages. But the quality of such education and medical services is low, and the productivity of those services, as seen in literacy rates, immunization coverage, and infant mortality rates, is also low. For example, primary schools are present in more than 90 percent of the survey villages. However, only 62 percent of ru-

ral schools have textbooks, and just 55 percent offer the complete five-year primary school curriculum. Enrollments drop off drastically from primary to secondary level, and age-grade matching shows that many students are late entrants or repeaters. Not surprisingly, 36 percent of the population is illiterate.

The poor show markedly lower participation in education than the better-off. At the levels of secondary and higher education, the poor are very lightly represented, and the heavy government subsidies for secondary and higher education flow almost exclusively to the better-off, nonpoor Lao population.

Access to modern health care and facilities is far more constrained than access to primary education. Urban residents enjoy nearly 100 percent access to nearby hospitals and medical practitioners. In rural areas, about 70 percent of rural families are located more than 3 kilometers from the nearest hospital, dispensary, or pharmacy. The poor are particularly disadvantaged in terms of health access. In urban areas, measures of proximity to medical services for the poorest 20 percent and the richest 20 percent are equally high. But in rural areas, disparities are sharp by quintile, with the top 20 percent enjoying high levels of nearby access to medical practitioners, hospitals, dispensaries, and pharmacies, while the lowest 20 percent of the population enjoy very low levels of nearby access. The poor tend to use low-cost rural services such as "traditional" and "no care," while the better-off use hospitals and pharmacies. Poor access is matched with high rates of infant mortality (142 per 1,000 live births) and maternal mortality (660 per 100,000 live births). Fertility is high, at 6.9 births per woman of childbearing age in rural areas and 6.7 overall. For health reasons alone, Lao PDR will need to address birth spacing as an urgent priority.

Safety Net

The government-provided safety net is limited to social security for government employees and some social welfare expenditure on natural disaster relief. Development of a true safety net for the poor has not moved past basic health and education services, both of which involve out-of-pocket expenditure by the poor.

Poverty Strategy

As Lao PDR enters a period of more robust growth, fueled by the urban industrial sector, what are the prospects for social development? Rapid growth will reduce poverty quickly; if per capita GDP grows at an annual average of 3.5 percent, poverty will decline from 46 percent today to 22 percent by 2000, assuming no deterioration in the distribution of income. The government faces conditions that, in many ways, prevailed in some of its high-performing East Asian neighbors 30 years ago. Poverty incidence is high and per capita income is low in an agricultural, rural economy. The government has demonstrated its commitment to economic growth as the guarantor of increasing welfare for all through the adoption of a sound macropolicy framework.

The findings of the assessment report present a mixed picture of strengths and vulnerabilities in meeting the challenge of social development.

It recommends shifting the balance of growth benefits in favor of the rural poor through interventions to address their relatively unfavorable position in regard to publicly financed programs. Improvements in the quality of education are vital, and a fee structure to help finance the expansion of postsecondary and higher education would also help reduce the current education subsidies for better-off families. The health system needs to expand and improve public services in disease control and primary care for mothers and children, including the urgent need to reduce fertility rates. In the transport and agricultural sectors, investments and improvements in rural roads and support for rural market development should be coupled with improved extension services to help rural farmers break the low-input and low-output cycle of agriculture. More fundamentally, new financing mechanisms for rural development may hold the key to empowering communities and increasing their participation in choosing and managing small-scale rural investments. A shift toward decentralization of investment decisionmaking has generated strong responses in other countries facing the same dilemma of rural stagnation in productivity growth.

Statistical System

To support such a poverty strategy, continued production of household and village data from the statistical system is essential. The next consumption survey will need to include modules to gather data on priority sectoral issues, rather than conducting such sectoral modules separately and later in time, as was the case with the first-ever national surveys that were used for this assessment report.

Lesotho

Poverty Profile

According to a recent World Bank study, nearly half of all Basotho households are poor, and more than a quarter are ultra-poor. Poverty in Lesotho is a rural phenomenon (90 percent of the poor reside in rural areas), and the incidence is disproportionately high among households engaged in agriculture, informal business, or casual labor, while households relying on mining remittances from South Africa are relatively better off. Households headed by the elderly or women are much poorer on average than other households. The number of female-headed households is higher than in many other African countries, undoubtedly because of the long tradition of Basotho men employed in South African mines. Especially vulnerable are children under 5 (boys, in particular). Boys suffer more than girls from higher malnutrition rates and lower school enrollment ratios.

Incentive and Regulatory Framework

After the economic downturn in the mid-1980s, the economy responded positively to the policies implemented under the structural adjustment program. Since 1992–93, the country has experienced a fiscal surplus and average annual GDP and GNP growth of 12 and 8 percent, respectively, in real terms, mainly driven by major construction activity under the Lesotho Highlands Water Project (LHWP) and export growth in textiles, garments, footwear, and light manufacturing. Model simulations suggest that structural adjustment, which was mainly associated with a tightening of fiscal policy, seems to have had a limited impact on household incomes in Lesotho and seems not to have disproportionately affected the poor. Of four factors analyzed, the drought had the most impact on the incomes of the poor, while the decline in workers' remittances, which mostly hurt the nonpoor, had the least impact. Construction activities under LHWP and growth in labor-intensive industry—also part of the government's structural adjustment strategy—appear to have increased household incomes, largely offsetting the adverse shocks of drought, lower migrant earnings, and fiscal conservatism. (See the regulatory and incentive issues referred to in the government's Prioritized Action Plan.)

Public Expenditures

The government of Lesotho has recognized the central role of human resource development for the country's development and poverty reduction. As a result, resource allocations for social services have steadily increased: the share of health care and education in public expenditures climbed from less than 20 percent in 1982–83 to nearly 30 percent in 1993–94. Despite rapid population growth, real per capita spending on health care and education has nearly doubled over the past decade. This financial commitment, combined with generally favorable sectoral policies, has enabled Lesotho to expand access to basic social services considerably. Lesotho has established a broad-based, decentralized health care system and has significantly expanded primary health care services targeted at major childhood and adult diseases. Access to potable water for urban and rural citizens has improved. School enrollment has increased dramatically, by 30 percent in primary schools and by 70 percent in secondary schools. However, the general level of human resource development is still low, especially among the poor. Simultaneous action is needed in several mutually reinforcing social services, including health care, primary education, water and sanitation, and family planning.

Safety Net

A number of safety net schemes are implemented by numerous government agencies, usually with assistance from donors and local NGOs. Nonemergency programs include direct income transfers to the poor and the vulnerable (the homeless, the disabled, orphans), food aid, microprojects, school feeding programs, and rural food-for-work public works programs. In conjunction with the structural adjustment program, a safety net fund was introduced to reduce the transitory pressures of adjustment on households and to support small projects to reduce poverty. Many NGOs and church missions are also providing in-cash and in-kind support to the poor. Experience suggests that these programs often do not reach the poor in a cost-effective way. There exist no framework of priorities nor impact monitoring systems. Virtually no safety net programs in Lesotho target their support effectively to the intended beneficiaries. Moreover, the high degree of institutional fragmentation makes it difficult to set priorities or identify target groups. This is partly because uncoordinated donor support has created many parallel programs with separate

management units and is straining the country's already weak administrative capacity. Consolidating existing safety net programs and shifting toward self-targeting programs could improve the impact on the poor and lead to a more cost-effective use of resources.

Poverty Strategy

Lesotho's action plan for reducing poverty recommends policies to (a) foster labor-intensive growth in agriculture, small businesses, export-oriented light manufacturing, tourism, and infrastructure investment; (b) invest in human resources by improving resource allocation and targeting subsidies to increase equity and the impact on the poor; (c) strengthen safety nets by devising food pricing policies favorable to the poor, expanding labor-intensive public works, and targeting special programs to vulnerable groups; and (d) improve institutional capacity through decentralization, civil service reform, improved planning and budgeting, and streamlined program management. Specific recommendations that should be given priority are to remove price, marketing, and processing distortions in agriculture; invest in rural infrastructure that supports intensified agriculture and the production of export crops; make it easier for small entrepreneurs (especially women) to obtain credit and do business; keep minimum wages at a competitive level; use private contractors on public works; exempt children under 5, the elderly, and the disabled from user fees; introduce a free or low-fee package of basic health services; lower the cost to parents of primary schooling; strengthen informal education for out-of-school youth; lower the cost of staple foods; and design and implement a poverty reduction program of investment, financed from the Development Fund of the Lesotho Highlands Water Project.

Statistical System

There is no official poverty line in Lesotho. The report's main source of data is the 1986–87 Household Budget Survey and a 1993 Household Survey by Sechaba Consultants, commissioned by the Drought Relief Implementation Group. While the 1986 survey was a comprehensive national income and expenditure survey, the 1993 survey covered a smaller sample with less information on expenditures. The 1986 survey was used to estimate spending for 1993. Consumption and income levels are generally underestimated in Lesotho, which is one reason that a relative rather than an absolute poverty line was used to avoid a serious overestimate of the poverty incidence. The Poverty Action Plan recommends carrying out annual household surveys.

Madagascar

Poverty Profile

Madagascar is among the poorest countries in the world. Poverty has increased and deepened substantially over the past two and a half decades, with real per capita income decreasing 40 percent between 1971 and 1991. The poverty assessment estimates that 70 percent of the population are poor and 59 percent are extremely poor. Almost 80 percent of the rural population are poor compared with almost 50 percent of the urban population. Two-thirds (66 percent) of the rural population are extremely poor compared with just above a third (35 percent) of the urban population. As a result, 86 percent of the poor and 88 percent of the extremely poor live in rural areas. Poverty is also deeper in rural areas than in urban areas. Farmers (especially smallholders) are the poorest group in the country. They also have the highest poverty gap and severity index of all socioeconomic groups. However, according to many statistics, there do not appear to be significant differences between men and women in terms of poverty and living standards.

Nonmonetary indicators of poverty are also important for understanding poverty in Madagascar. For example, poor and extremely poor households have higher dependency ratios than do nonpoor households; 56 percent of poor and 67 percent of extremely poor youngsters age 7 to 20 years old do not attend school and are probably entering the labor force earlier than their nonpoor counterparts. Out of 1,000 Malagasy children, 93 die before reaching their first birthday, and infant mortality is much higher in rural areas. The poor do not consume sufficient calories, and the food they consume is of poor nutritional value. Children in poor households generally have higher rates of malnutrition than those in nonpoor households. For drinking water, the poor and the extremely poor are likely to rely exclusively on sources such as lakes, ponds, and rivers that can be easily contaminated, whereas the nonpoor are more likely to have access to wells, public taps, and indoor plumbing.

To understand poverty beyond these monetary and nonmonetary indicators, a participatory poverty assessment sought to ascertain how poverty is defined by those who live it. The general picture emerging from that study is that poverty is perceived as the inability to be socially integrated and to adhere to local customs and norms. The poor also feel neglected by public institutions and are concerned about security and isolation. Impassable or nonexistent roads that limit access to markets, information, and basic goods are an important issue for the poor, as is the poor quality of the educational system, especially the teachers.

Incentive and Regulatory Framework

Although some progress has been made in recent years in deregulating product and factor markets, the distortions that remain are particularly harmful to the poor because the poor are concentrated in the agricultural sector and competitive and regulatory policies are inadequate. For example, maintaining a competitive exchange rate and liberalizing trade have increased price incentives for exports that are produced primarily by the poor, such as coffee, cloves, vanilla, and pepper. However, the positive effects of the devaluation on the poor would be considerably greater if more efforts were made to eliminate private and public monopolies, which continue to depress producer prices and, thus, the incomes of poor producers. Although export taxation has been reduced for vanilla, private monopolies result in informally regulated trade and storage markets, resulting in extremely low producer prices, low exports, and loss of external markets. Also, price or trade distortions for crops such as cotton, sugar, wheat, copra, and oil palm result in relatively high levels of protection that perpetuate inefficiencies and, in some cases, maintain artificially low producer prices.

Outside agriculture, a number of other sectors need to be deregulated and are extremely important for economic recovery and the country's long-term development. Private sector development, which is key to providing sustainable jobs to unskilled workers, is constrained by poor regulations governing certain sectors where the state has traditionally been a monopolist supplier, such as electricity, telecommunications, and water supply, as well as sectors where competition is restricted, such as maritime and air transport. Similarly, there is a need to lift existing restrictions on land transactions, which artificially increase the price of land and rents, especially in urban areas, and have significant negative effects on the living standards of the poor. There is also a need to give a commercial orientation to—if not to privatize entirely—the supply of goods now produced and provided by the public sector, such as water in urban areas and irrigation in rural areas, and to ensure

that these goods and services are priced realistically. Available statistics suggest that the subsidy implicit in pricing water below cost accrues to high-income groups and that the poor in fact pay a much higher price for water than the rich.

Public Expenditures

Since the late 1980s, public expenditures for education have been gradually declining as a share of total public spending. All education spending (both recurrent and investment) accounted for 16 percent of total public spending in 1994, compared with 18 percent in 1985. As a share of GDP, total education spending accounted for 2.6 percent of GDP in 1991. During the period 1988–94, per student recurrent expenditures for all levels of education increased steadily in nominal terms. On average during this period, primary-level education accounted for 44 percent of all recurrent spending, secondary-level education accounted for 31 percent, and university education accounted for 25 percent. There is scope for increasing nonsalary recurrent expenditures at the primary level. At the tertiary level, assuming perfect efficiency, the university system could operate on one-third of its current budget. This suggests that increasing efficiency at the university level could significantly reduce per student expenditure at the university level, thus releasing resources that could then be redirected toward nonsalary expenditures at the primary level.

The poverty assessment found that the public sector education subsidy is not well targeted to the poor. The primary-level subsidy is the most equitably distributed. The poorest quintile receives the smallest per capita subsidy because net enrollment rates for the poorest quintile are disproportionately low. At the secondary level, the subsidy is biased heavily toward the richest quintiles, with the richest quintile receiving about 10 times the amount received by the poorest quintile on a per capita basis. At the tertiary level, the average per capita subsidy is absorbed almost entirely by the richest quintile. For all levels of education combined, the richest quintile receives three times more on a per capita basis than the poorest quintile does, and people in urban areas receive a per capita subsidy that is three times larger than that for people in rural areas. The reason for this is the unequal distribution of university-level and secondary-level subsidies. The education subsidy is generally evenly divided between men and women. This reflects the fact that girls have about the same enrollment rates as boys at all levels of education, a situation that is atypical for an African country.

Public spending on the health sector increased between 1988 and 1993 in nominal terms. As a share of all government recurrent expenditures, it increased incrementally, from 4 percent in 1988 to 6 percent in 1994. A particular problem is that the budget for drugs and pharmaceutical supplies is very limited, amounting to only 11 percent of public health spending in 1993. In absolute terms, the health subsidy is biased toward the nonpoor. In other words, the poor receive a smaller proportion of the public health care subsidy, at any level of service, than their share of the population. For instance, the poorest 20 percent of the population receive only 15 percent of total public expenditures on health, whereas the richest 20 percent receive 27 percent. The subsidy for basic health care is distributed more equally than the subsidy for hospitals.

Safety Net

Monetary and in-kind transfers to and from households are made but only to a limited extent. Although transfers are proportionately a more important source of income for the poor than for the nonpoor, the rich receive the majority of the benefits. Community and family networks also provide informal safety nets in times of economic trouble, although the drop in purchasing power has probably made it difficult for families and communities to keep up with their obligations. Poor families also supplement their incomes with seasonal and permanent migration. In the most impoverished area of the country, in the south, the participatory poverty assessment found that almost half of the households surveyed had migrated during the five years prior to the survey (1987–92). Solidarity among migrants from the same region constitutes another important informal safety net.

Not all of the mechanisms are informal; some are provided by the government. For example, the Social Fund Project has been highly successful, having helped, within its first year of operation, to create 213,000 person-days of temporary employment for the poor in building essential infrastructure. The Bank-supported Urban Works Pilot Project has provided approximately 14,000 person-months of employment, in many cases to the poor, to improve the dilapidated infrastructure of the capital. The Bank-supported Food Security and Nutrition project (SECALINE) has reduced malnutrition in its target communities by about 40 percent, while the Community Nutrition Program provides a low-cost nu-

tritious snack to poor children and is tackling iodine deficiency among the poor population by distributing capsules and by iodizing salt.

Poverty Strategy

Madagascar has enormous potential for growth, a well-trained labor force, and abundant and varied natural resources; its comparative advantage in labor costs makes it an attractive place for investment in goods that are labor-intensive to produce. Clearly, the government must concentrate on improving living standards in rural areas to reduce poverty. There is potential for increasing the production of traditional food and export crops and of high-valued agricultural export crops such as tropical fruits, essential oils, and shrimp. The country also has sizable mineral resources that have not yet been exploited, and with its ecological diversity and unspoiled beaches, it has enormous tourist potential.

A strategy for rapid and dynamic pro-poor growth involves getting the macroeconomic environment right, but to have the maximum impact on poverty, it also requires actions to ensure that the poor are situated to take advantage of the opportunities presented by growth. In general, these two goals will require:

- Adopting a rigorous and stable macroeconomic policy that will control inflation and stimulate domestic and international confidence
- Establishing a legal and regulatory framework conducive to private sector activity that will then be able to provide sustainable job opportunities for both skilled and unskilled labor
- Raising the productivity and incomes of farmers by improving rural infrastructure and diversifying agricultural production for export
- Investing in human resources.

Statistical System

The preparation of the poverty assessment has highlighted the need for accurate data on poverty in Madagascar. Some years ago, the government and the World Bank planned to establish a monitoring system of living conditions that would be implemented by the National Statistics Institute. Of the three household surveys initially planned, only one survey had been executed by the time of this poverty assessment, due mainly to a lack of funds and inadequate technical assistance. The one national household survey, the EPM (*Enquête Permanente auprès des Ménages*), carried out between April 1993 and April 1994, was a nationally representative survey that collected data on expenditures and living conditions from more than 4,500 urban and rural households in the six Malagasy provinces. The survey methodology was based on the World Bank's Social Dimensions of Adjustment Integrated Survey. The EPM was the first survey of this scope implemented in Madagascar. The data have proven to be very useful, despite some problems in the quality of the data gathered.

Donors are attempting to assess the country's statistical capability. Some areas that warrant attention are timely and regular production of national data on living conditions, ways to monitor targeted groups and communities, regular dissemination of outputs, and the integration of findings into policy. The National Statistics Institute has set up a special department for implementing household surveys, consisting of the EPM team. The next survey, planned for 1997, will focus on household consumption. The second one, planned for 1999, will focus on employment and social indicators for health and education. However, making poverty monitoring efficient in the country may require establishing an Observatory of Living Conditions to monitor activities for gathering and analyzing data related to poverty and living conditions. The role of this observatory would be to follow up on the various operations for monitoring poverty in the country, to seek funding to support them, and to ensure proper dissemination of the results by means of bulletins, specific studies, seminars, and workshops at the national and regional levels.

Malawi

Human Resources and Poverty Profile

In the 1990s Malawi continues to have health and education indicators that are among the worst in the world; per capita GDP is below US$200; distribution of incomes is very unequal; and poverty is widespread and severe. These indicators of poor living conditions persist despite the relatively high economic growth rates experienced by Malawi during the 1970s and 1980s and despite the slightly less-than-average for the region economic decline experienced by Malawi in recent years. A new government elected in Malawi in 1994 has placed poverty reduction as its top priority and initiated the Poverty Alleviation Program. This created a new imperative to increase understanding of the magnitude and multiple dimensions of poverty in the country. Toward this end, the World Bank provided technical assistance to aid the government in preparing a profile of human resources and poverty in 1995. The analysis confirms the severity of poverty and human resource deprivation and indicates the priorities for Malawi's poverty reduction strategy: deepening growth-oriented policies, improving coverage and quality of basic social services, and establishing cost-effective safety nets. The new government has taken action in each of the key policy areas, but the scale of the problem requires broader measures and more forceful implementation than has taken place so far. This is the challenge that faces Malawi's policymakers today.

The profile of human resources and poverty is constructed using national household survey data collected in the early 1990s: the 1990–91 Household Expenditure and Small-Scale Economic Activities Survey, the 1992–93 National Sample Survey of Agriculture, and the 1992 Demographic and Health Survey. The profile starts with an analysis of human development indicators in Malawi. Social indicators are very poor, even compared with those of other Sub-Saharan countries. The population growth rate is high, resulting in a population density that is among the highest in Africa. In Malawi, 90 percent of the population lives in rural areas, and almost half the population (47 percent) is under age 15. Households often contain more children than adult providers, and institutions find it difficult to provide social services to a young and quickly growing population. Infant and child mortality rates are the highest in the region, with one in every four Malawian children expected to die before their fiftieth birthday. Maternal mortality rates are very high (620 deaths per 100,000 births in 1992) due to poor access to prenatal services, high fertility rates, short intervals between births, and malnutrition among women of childbearing age. Child malnutrition, both acute and chronic, is also high. HIV and AIDS are spreading, with high costs on households and society at-large. The central region has much higher child mortality rates and much lower maternal health care attendance than the southern and northern regions.

The educational system is hampered by problems of poor access, high repetition and dropout rates, poor infrastructure, and inequity across regions, income groups, and gender. The new government initiated a policy of free primary education in 1994 that dramatically increased primary enrollments. The boom in enrollments also meant that the quality of education—low in the first place—has deteriorated further. Most Malawian children never attend secondary school. The northern region and urban areas have much higher school attendance rates than the southern or central regions or rural areas. Girls are most likely to drop out at any level of education; the poorest income quintiles are the most poorly represented at any level of education.

The widespread deprivation suggested by the social indicators is further confirmed by an analysis of incomes and expenditures of households. The poverty profile contains the first quantification of geographic differentials in income inequality and the prevalence and severity of poverty in Malawi using nationally representative data. A Gini coefficient of 0.62 for the national distribution of incomes, one of the highest Gini values in Africa, indicates that incomes are very unequally distributed. Even among rural smallholder households, inequality is very high, as evidenced by a Gini coefficient of 0.57 for the distribution of smallholder incomes. These indicators confirm that rural poverty is deeper and more severe than aggregate GNP figures indicate.

An absolute poverty line was not constructed due to time and data limitations and because a consensus needs to be built among policymakers and others on what constitutes a reasonable standard of living. Instead, relative cutoffs were applied: the term *poorer* was used to describe households below the 40th percentile of national incomes and expenditures, and *poorest* refers to households below the 20th percentile. Using these relative poverty lines and national data, it was possible to quantify many previously hypothetical relationships and to

provide a more detailed examination of many critical issues.

Consistent with the findings of other studies and conventional wisdom, poverty was found to be more prevalent in rural areas, and within rural areas, it is most prevalent in the southern region. The prevalence of poverty coincides with the pattern of population, with the large majority of both the general population and the poor located in rural areas. The southern region has not only the highest prevalence of poverty but also the deepest poverty. Intrarural inequality is remarkably high, and pockets of deep poverty exist in all regions of the country. Among cities, Lilongwe has the highest prevalence of poverty. Urban poverty does not follow the rural pattern in that cities in the central and northern regions contain more extensive poverty than Blantyre and Zomba in the south. BOMAs, or small towns that are administrative headquarters, have a pattern of poverty more similar to the rural distribution than the urban one.

Although rural poverty is associated with small landholdings, it is not tied exclusively to the size of landholding. Nevertheless, virtually all households with access to more than 2 hectares of land were found to be at the upper ends of the income distribution. Off-farm opportunities are confined to a few activities, most of which do not provide returns as high as own-farm production. The poor are less likely to plant hybrids and use pesticides and fertilizers and have less access to formal credit than do other smallholders. These findings provide evidence that the poorest households have not participated in agricultural intensification. At the time of the surveys in the early 1990s, poor households had not benefited from increased opportunities to produce and market burley tobacco or other high-value crops. Households in the lowest socioeconomic groups own less than 1 hectare of land, own very few other productive assets, have no livestock, and are headed by a woman who has never attended school.

Incentive and Regulatory Framework

There is consensus that past policies have constrained productivity of the huge rural smallholder sector and resulted in very low incomes and food insecurity for these households. Several ongoing reform programs address the need to increase smallholder incomes from agriculture.

First, the policies of the previous government created a dual economy by transferring customary land to the estate owners and giving them the sole right to grow burley tobacco, Malawi's most profitable crop. In the early 1990s, the policy regime began to change, and burley quotas began to be given to smallholders in a limited way. The analysis indicates that access to smallholders should be expanded and that all quota limitations on smallholder burley tobacco should be removed. Obstacles that exclude smallholders from the burley marketing system should be lifted immediately. However, the poorest smallholders are unlikely to plant burley because of persistent constraints such as lack of cash to purchase inputs.

Second, recent policies have moved toward liberalizing maize prices. Higher producer prices should encourage maize production and raise the incomes of households able to produce net surpluses of maize. Given the land and asset constraints documented in this profile, it is doubtful that higher maize production will be able to eliminate maize deficits for the poorest producers who will suffer in the short run. This calls for complementary interventions to facilitate the adoption of hybrid varieties, diversify own-farm crops, and generate off-farm incomes, for example, through public works programs.

Third, agricultural research and extension systems should support crop diversification, and extension services should be reformed to deliver appropriate messages for small-scale producers.

Although much progress has been made in liberalizing the Malawian economy, significant obstacles remain. First, the highly centralized transport system has effectively eliminated small-scale hauling activities, small-scale processing, and decentralized small-scale storage. Removing protections for the domestic transport industry by eliminating minimum tariffs should facilitate agricultural diversification, increase profit margins for rural producers, and increase the purchasing power of poor consumers.

Second, given the predominance of agriculture in Malawi's economy, the skewed distribution of land, and the links between poverty and landholding size, a comprehensive review of land policy is urgently needed. Policies and laws are needed to protect property rights, encourage more efficient use of land, and support an active land market that allows the most productive farmers to engage in agricultural production.

Third, simplifying the procedures for licensing and registering private traders is necessary to ease smallholder access to inputs and facilitate marketing of their output.

Public Expenditures

Both in absolute per capita terms and as a share of GNP, Malawi's public expenditure levels have been above that of countries with similar levels of per capita GNP. Moreover, the percentage of GNP allocated to health and education sectors is also relatively high in Malawi. From a poverty perspective, it is particularly worrying that despite this relatively high total and overall social sector spending, human development outcomes are so dismal. This indicates that the allocation of public spending has not been directed to basic social services and that resources have not been used effectively.

The analysis indicates that improving the intrasectoral balance of resources to primary service levels in health and education will be a cost-effective way of improving the living conditions and prospects of poor households. Public spending in the health sector needs to be reallocated to rural primary-level health care facilities, especially in the central region. In the education sector, resources need to be targeted to ensure that girls complete at least the primary education cycle.

The decision to improve access to and coverage of basic services has to be balanced by the need to improve their quality. The recent expansion in primary education enrollments highlights this issue. The quality of primary education has declined as coverage has expanded. It is feared that this decline will be reflected in future increases in dropout or repetition rates. Similarly, in the health sector, improving the quality of basic services through adequate provision of drugs and medical supplies is as important as increasing coverage.

Another key area for public expenditure is that of rural economic infrastructure such as feeder roads and marketplaces. In some cases these investments may be forthcoming from communities and private individuals or firms. Nevertheless, the public sector needs to support these initiatives indirectly through the removal of regulatory restrictions and directly through cost-sharing.

Safety Net

Poverty is so pervasive in Malawi that interventions such as policy reforms should be complemented with targeted income transfers and public works programs designed to reach those who are in acute need and those who will not benefit from growth opportunities even in the long run.

Given the capacity constraints on the government, it is necessary that NGOs and the broader civil society be involved in the formulation and implementation of public works programs. Experiences from safety net programs, especially those started after the droughts, need to be pooled and assimilated. For example, free input distribution programs were instituted in the smallholder areas most affected by droughts in 1993–95. This program may not be the most efficient method of transferring resources to the poor and may lead to an unwelcome dependency on free inputs. Self-targeting public works programs that provide cash, food, or inputs in exchange for labor may have dual benefits of transferring incomes to the needy and creating infrastructure that increases the returns from economic activity of the area.

The patterns of poverty found in this profile can be used to target such programs. Lilongwe Agricultural Development Division (ADD), near the Mozambique border, and Rumphi/N. Mzimba, in Mzuzu ADD, are two examples of high-poverty areas with potential for long-run growth. These areas could be targeted for labor-intensive public works programs that create transport infrastructure. Other areas with severe poverty but less economic potential, such as in the Shire Valley, might be targeted for pure transfers.

Poverty Strategy

The analysis of the characteristics of poor households and determinants of poverty leads to identification of the following key elements of Malawi's poverty reduction strategy: the removal of policies that have constrained the productivity of the large rural smallholder sector, the initiation of safety nets to reach poor households that will not benefit directly from growth, the improvement in the cost-effectiveness of public spending on social sectors by focusing on the provision of basic services, the empowerment of poorer communities to engage in local resource allocation decisions, and the establishment of a monitoring system to evaluate the effects of programs and track the progress of key indicators of poverty.

Although agricultural policies will continue to have significant implications for growth and poverty reduction, it is clear that, given the land scarcity in Malawi, sustainable poverty reduction will depend, to a large degree, on rural Malawians being able to access income-generating activities outside agriculture. Investments in feeder roads, marketing, and storage facilities that lead to increased labor and out-

put mobility will be critical to support the diversification of the rural economy. As agricultural incomes increase, demand linkages for processed goods are expected to increase the opportunities for micro and small enterprises.

It is also clear that investments in basic human and social capital in the form of improved health, education, and sanitation, as well as community empowerment, are essential for sustained reductions in poverty in Malawi. Investments in these areas are expected to enhance future growth as compared with a situation without such investments.

Statistical System

There is a considerable amount of data on household living conditions and social indicators in Malawi. Unfortunately, much of the data collection effort has been ad hoc, and the data do not lend themselves to trend analysis or long-term monitoring. In order to improve the availability of timely and relevant data for formulating policy and tracking progress in poverty reduction, the government has recently initiated a poverty monitoring system. Key data collecting, research, and policymaking institutions inside and outside government have started to build consensus on the key indicators of poverty. The National Statistics Office is initiating an Integrated Household Survey Program with core and rotating modules that will permit analysis of household living conditions with considerable sectoral breadth and comparisons across time. The survey program will be designed collaboratively with key users, and the analysis will also be done collaboratively. This will be complemented by a panel qualitative study to analyze the dynamics of poverty in depth. Areas where future capacity strengthening is necessary include increasing the ownership among sector ministries of relevant sectoral poverty indicators, improving the timeliness of survey implementation and analysis, and enhancing the analytical skills of policymakers and research institutions.

Mongolia

Poverty Profile

The transition from a centrally planned economy, in which the government provided all basic needs and most of the population had access to a full range of social services, has been particularly difficult for Mongolia. Prior to 1990, Mongolia depended on assistance from the former Soviet Union, which accounted for 30 percent of GDP. The cancellation of Soviet-financed assistance, the loss of traditional export markets, and the interruption of imports of basic inputs, such as fuel and cement, have had a devastating impact on the economy. Industrial production and construction have declined 25 and 70 percent, respectively. Agricultural and livestock output have dropped, and the economy has contracted 20 percent overall.

The analysis of the first Living Standard Measurement Survey (LSMS) provided a profile of the poor and identified the most vulnerable groups in the country. More than 800,000 people, or 36 percent of the population, are poor. Female-headed households have a higher incidence of poverty, as do the unemployed and rural households owning less than 15 animals. Urban poverty is marginally higher than rural poverty, particularly in provincial capitals that have been hard hit by the closing of state enterprises. Private transfers provide a significant source of expenditures in poor households, accounting for nearly 20 percent of total expenditures. Without these private transfers, the poverty rate would increase to 46 percent of the population. The survey found a strong correlation between unemployment and poverty, with 58 percent of the unemployed being poor. Unemployment is a particularly difficult problem in both the urban and rural areas. In addition to the 100,000 currently unemployed, the economy will need to absorb 30,000 public sector employees made redundant as a result of civil service reform. Also, more than 25,000 people enter the labor market annually. Among the rural poor, 35 percent of the very poor and 14 percent of the poor are unemployed. Among the urban poor the situation is even worse, with 55 percent of the very poor and 34 percent of the poor being unemployed.

Incentives and Regulatory Framework

Since 1990, Mongolia has embarked on a far-reaching reform program with parallel transformations of its political and social structures. Economic reform is one of the government's declared priority areas. The key elements of economic growth and poverty reduction are continued macroeconomic stability and structural reforms leading to the creation of jobs and the generation of adequate resources to finance appropriately targeted social services. These objectives pose formidable challenges for the government.

A series of structural reforms have been introduced, including aggressive privatization efforts for small enterprises and livestock holdings, abolition of price controls, and lifting of restrictions on labor mobility. A voucher privatization program facilitated the transfer of 44 percent of state-owned enterprises to the private sector. In 1993 a modest recovery started, particularly in the service sector. Growth in 1995 reached 6 percent, with improvements in many sectors of the economy.

Public Expenditures

Mongolia devotes 16 percent of GDP to education, health, and poverty-related interventions. Although this share appears high for a low-income country, decomposing these expenditures reveals that Mongolia's vast territory and harsh winter climate dictate that more than one-third of the expenditures in education and health must be devoted to heating and transport. The issue facing the government is how to maintain a level of expenditure that is fiscally sustainable, coupled with the introduction of measures to improve the efficiency of expenditures—for example, making heating more efficient and rationalizing the use of existing schools and health centers.

Related public expenditure issues are access to, targeting, and quality of education and health services. This poverty assessment shows that education and health subsidies benefit the wealthiest quintiles twice as much as the poorest. Enrollment in primary education declined from 98 percent in 1989 to 84 percent in 1995. Enrollment of the poor in rural areas declined from 86 to 77 percent. Among livestock-herding households, the secondary school dropout rate for male children (ages 13–16) increased sharply

and is about three times as high as it is for male children in other households. Privatization of livestock, rising school fees, and the growing question about the relevance of education in a pastoral society are cited as causes for the new wave of nonenrollments among the rural population. To avert the growth of an illiterate generation, the government, in collaboration with communities, has the formidable task of formulating a delivery mechanism that is cost-effective and able to meet the new demands for quality education.

The rates of maternal mortality and morbidity increased steadily from 1989 to 1993. In poor provinces the closure of maternity hostels and limited transport facilities due to inadequate resources are potential reasons for these outcomes. Coverage of sanitation, safe water, and immunization also fell more sharply in poor than in rich *aimags*. The introduction of health fees and the reduction of government subsidies raised the cost of access to and use of public health provision and also reduced the quality of services. The emergence of private health providers enabled only those in the wealthiest quintile to seek better-quality care.

As part of its reform plan, the government adopted a stringent fiscal policy. From the beginning of the transition period the government halved total expenditures, from 52 percent of GNP in 1990 to 28 percent in 1993. Social sector expenditures on education, health, and poverty reduction declined from 24 percent in 1990 to 14 percent in 1994. Overall, the government sharply reduced subsidies from 21 percent of GDP in 1990 to 7 percent in 1993, and the reduction continues in real terms. These controls had a positive impact on the economy as growth accelerated and inflation declined.

Safety Net

Mongolia has a long tradition of self-help, and traditional safety nets continue to be an important factor in addressing urban and rural poverty. Large extended families provide a great deal of assistance, both in cash and in animals. More than 42 percent of households receive some form of private remittance. The government provides both social assistance and social insurance to targeted portions of the population. Social assistance is critical for the poor who have been particularly hard hit during the transition. However, with major reductions in government spending and the large increase in the number of unemployed, total assistance per capita declined to less than US$10 a year. Even this amount is not distributed equitably among the poor. Several nongovernment agencies and bilateral donors have been providing social assistance to the poor.

To protect the poor during the transition period, the assessment recommends the following measures: (a) financing social assistance—despite the meager social assistance funding, public sector transfers should be carefully designed to supplement the flow of private transfers and other sources of income; (b) improving targeting—the level of education of the household head and the number of animals owned (per capita) are good targeting indicators; (c) streamlining social assistance—consolidating and streamlining the system of benefit categorization would save on administrative costs per unit of transfer; and (d) improving the delivery of social assistance. There is a clear need for cross-subsidization from richer to poorer *aimags*, with the central government taking an active role in achieving such a redistribution of revenues.

Poverty Strategy

Although Mongolia began monitoring poverty only following the start of the transition program in 1990, it has since embarked on an ambitious poverty alleviation program. The National Poverty Alleviation Program (NPAP) was launched in June 1994 as a multisectoral poverty reduction program to reduce the officially measured incidence of poverty from 26 to 10 percent of the population by 2000. It acknowledges the need for sound macroeconomic policies to generate employment opportunities and investment in human capital to enable the poor to meet the new labor market demands. The key features of NPAP are the development of management capacities for the public sector to redefine its role and facilitate the growth of the private sector, investment in rural infrastructure and basic services, availability of lines of credit for women and other small entrepreneurs, and safety net programs to protect those who are unable to benefit from the expanding labor market. For the rural sector, NPAP recognizes that the livestock sector will remain the mainstay of the economy and a vehicle for reducing poverty. As a framework for poverty reduction, NPAP provides a suitable mechanism for integrating poverty alleviation in the overall development agenda and channeling resources to targeted poverty reduction programs.

The key elements for growth and poverty reduction are continued macroeconomic stability and struc-

tural reform leading to the creation of jobs and the generation of adequate resources to finance appropriately targeted social services. The assessment recommends a public expenditure program aimed at poverty reduction comprising:

- Labor-intensive investments and training programs for the unemployed to meet the growing requirements for new skills;
- Maintenance of the present level of social expenditures while adjusting the composition and improving efficiency, access, and targeting;
- Support for poor small herders through the promotion of productivity-enhancing measures, including the improvement of pastures based on traditional herding groups, provision of veterinary services, supply of emergency fodder during severe snowstorms, imposition of sectorwide policy changes to remove nonmarket interventions in meat pricing and barriers to live animal exports, and provision of market information;
- Protection of the real level of pensions, improved management of social security administration, and increases in the allocation for social assistance; and
- Targeted energy price subsidies for the urban and rural poor, while narrowing the margin between the average tariff and long-run marginal costs, particularly for industry and other energy-intensive uses.

Statistical System

This poverty assessment was prepared in close collaboration with the government and in consultation with NGOs and focus interviews of individuals among the vulnerable groups. The government is integrating the various modules of the LSMS into its household survey for purposes of poverty monitoring. Continued analysis of such data would be a critical input for policymaking and for making resource allocation decisions. Statistical surveys and analysis would also be supplemented by in-depth studies of traditional pastoral institutions and coping mechanisms, as well as the scope for promoting the roles of communities and NGOs in poverty alleviation programs. The LSMS has created a rich statistical database to promote the government's poverty analysis capacity and provides a strong basis for continued poverty monitoring.

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Niger

Poverty Profile

Niger's per capita income and development indicators are among the worst in the world, with a per capita income of US$270 in 1993. Niger faces many of the problems encountered in Sub-Saharan Africa: rapid population growth, sluggish modern sector growth, variable agricultural performance, and environmental degradation. Niger's high population growth of 3.3 percent (compared with an average 2.8 percent for Sub-Saharan Africa) and recurrent drought make the problems particularly acute.

The first World Bank poverty report on Niger, *Niger Poverty Assessment: A Resilient People in a Harsh Environment*, was written with the intention of contributing to the government's formulation of an explicit action program against poverty and increasing sensitivity to the impact on the poor of policy and program development. The report describes the socioeconomic characteristics of the poor based on data from the 1993 National Household Budget and Consumption Survey. In Niger poverty is worse in rural areas than in urban areas, with stark differences: average urban incomes are double rural incomes. The poverty assessment used poverty lines set by the National Statistical Office of Niger: 75,000 CFA francs (CFAF) for urban and CFAF 50,000 for rural areas. According to these poverty lines, 63 percent of Niger's population (5.3 million) are poor, which includes 34 percent (2.8 million) who are extremely poor. Because of the population weighting, rural areas contribute 86 percent to total poverty. Of the rural population, 66 percent are poor and 36 percent are extremely poor. In urban areas 52 percent are poor and 26 percent are extremely poor. Niamey has the lowest proportion of poor, with 42 percent, which constitutes about 4 percent of all poor.

The report finds that the well-being of the people in Niger depends on many external factors: the world uranium market, rainfall, Nigeria's economy, and donor financing. This dependency brings extreme vulnerability. Agriculture, on which 80 percent of households depend, is extremely vulnerable to erratic and declining rainfall and periodic drought. Nearly 90 percent of rural household heads are farmers or pastoralists, and 6 percent are small traders, hawkers, craftsmen, builders, or transport workers.

Social Indicators

Niger's situation in education is catastrophic: a primary gross enrollment rate of 27 percent in 1993–94 places Niger among only five countries in the world where primary enrollment is below 30 percent. The level of education of the head of household is strongly correlated with poverty. Not surprisingly, the incidence, depth, and severity of poverty are greater for less-educated groups: 70 percent of households whose head is illiterate are poor. This falls to 58 percent when the head of household has attended Koranic school, 56 percent when the head has attended primary school, and 29 percent when the head has attended secondary school. The levels of infant mortality and under-5 mortality are extremely high in Niger: 123 and 318 per 1,000, respectively, and the Demographic and Health Survey suggests some worsening since 1980. These trends defy improvements that have been made in health care during the past decade and suggest that poverty is getting worse. Although household survey data cannot be disaggregated within households to permit analysis by gender, other indicators suggest that women are disadvantaged in many ways and that the burdens of poverty fall heavily on them. Women are subject to the authority of men, are secluded, and are confined by Muslim tradition. Female enrollment is a meager 21 percent (33 percent for males), and only 10 percent of women are literate compared with 20 percent of men.

Incentive and Regulatory Framework

The downward trend in per capita income since the end of the uranium boom has exacerbated poverty. Policy responses to the economic crisis may have worsened inequality and poverty. In January 1994 the government took decisive action to restore competitiveness and devalued the currency 50 percent along with other CFA countries. To reinforce gains in competitiveness, accompanying measures were taken: limiting the increase in the wage bill to 10 percent; improving tax collection and combating fraud to raise revenues to 9 percent of GDP from 7 percent in 1993; limiting the deficit to 14 percent of GDP; and simplifying external tariffs. Progress in these reforms was satisfactory, and good rains boosted exports. Real GDP growth reached 4 percent in 1994, yet the cuts in government expenditures were particularly disadvantageous to the poor. Profitability in the agri-

cultural sector—on which nearly 80 percent of households rely—will depend on technological improvements for rainfed farming under Sahelian conditions and appropriate price and fiscal policies that favor farmers. Stringent labor laws and a regulatory environment biased against the private sector have created a climate not conducive to private entrepreneurship. Although some quantitative trade restrictions were eliminated, labor sector rigidities were reduced, and monopolies in agricultural trade were abolished, there was growing opposition to the reforms.

Public Expenditures

As the Niger government continues in its efforts to institute a program of sound macroeconomic policy, one crucial measure will be to reorient public spending toward the effective delivery of basic social services, especially in rural areas. Policy responses to date have actually worsened inequality and poverty because, although the public wage bill was protected, recurrent expenditures (and investments) in health, education, agriculture, and infrastructure were cut, undermining service delivery.

Safety Net

Although there are strong, informal traditional social networks, the need for safety nets and social action programs to transfer income and deliver food aid is immense. Although the Job Creation and Private Initiatives Support Program, the Public Works and Employment Project, and the Special Development Program all achieved some impact, the executing agency, Agence Nigérienne de Travaux d'Intérêt Public pour l'Emploi (NIGETIP), was contracted to manage the funds for rehabilitating and providing urban infrastructure. NIGETIP's performance has been excellent and has produced CFAF15 billion in construction or rehabilitation works and CFAF1 billion in training and other services. The NIGETIP program has also created jobs in urban areas through labor-intensive projects and rehabilitated urban infrastructure efficiently and cost-effectively.

Poverty Strategy

The most effective component of a poverty reduction strategy in Niger is the implementation of sound economic policies that stimulate labor-intensive and sustainable growth. Such a program is being implemented; its aim is to guide policy actions to allow the economy to recover from external shocks. A successful adjustment program would move the economy to a path of higher growth and would improve living standards. The reforms aim to restructure the composition of output, keep the economy open, decrease monopolies, enhance resource mobility, reduce distortions that affect resource allocation, increase government effectiveness, improve the use of public resources and target the poor, and build human capital and infrastructure. The government's macroeconomic policy reforms aim to achieve a real GDP growth of 4.3 percent and reduce inflation from 7 to 3 percent. Two critical factors were confirmed by the poverty assessment: growth in agriculture will be the motor of poverty reduction, and population growth must be reduced.

Success in reducing poverty will depend on strong government commitment and a joint effort made up of potential partners and interest groups that include the government from central to local levels, unions, the private sector, communities and organizations of civil society, local and international NGOs, multinational and bilateral donors, and the development banks. Together, these would form a powerful and resourceful coalition that could do much to combat poverty in Niger.

Statistical System

The report highlights the importance of having a system for monitoring the impact of interventions on the poor over time in order to provide rapid feedback to policymakers and financiers on how well programs are reaching their intended beneficiaries. The objectives would be to:

- Monitor levels of poverty to evaluate overall progress.
- Analyze poverty by region (urban/rural), gender, income source, and socioeconomic group.
- Assess the poor's access to education and health services, including family planning and nutrition; to targeted programs such as school feeding, food aid, and NIGETIP; and to economic infrastructure, such as credit and agricultural extension services.
- Analyze the determinants of access to improve the design of policies and programs and the allocation of public resources.

These tasks could be done by an existing unit (for instance, within the Service d'Alerte Précose) or by a new unit established for this purpose.

Nigeria

Poverty Profile

Nigeria, with 110 million people in 1995, has the largest population in Sub-Saharan Africa. Its complex social and political history has, for the most part, adversely affected the population and worsened income distribution. The exploitation of the nation's oil resources and the management of oil windfalls have dominated the progress and decline of Nigeria's economy over the past two decades and significantly influenced the evolution and perception of poverty. The economy is characterized by a large rural, mostly agricultural, traditional sector, which comprises about two-thirds of the poor, and by a smaller urban capital-intensive sector, which has benefited most from the exploitation of the country's resources and from the services provided by successive governments.

A poverty line of N395 (1985 prices) per capita per year was selected as the poverty line that could consume the minimum number of calories per person per day recommended by the Food and Agricultural Organization of the United Nations and a minimal basket of nonfood items. This line resulted in 43 percent of the population being classified as poor in 1985 and 34 percent in 1992, a decline of 9 percentage points in headcount over a seven-year period. However, due to high population growth, this resulted in only 1 million fewer poor people. There were significantly different trends in rural and urban areas; the number of poor in rural areas fell sharply, from 26.3 million to 22.8 million, while the number of urban poor rose from 9.7 million to 11.9 million. Extreme poverty increased nationally from 10 million to 14 million, with a tripling of the headcount in urban areas. Income distribution also worsened. If not for worsening income distribution, national poverty would have declined by 13.6 percent rather than by 8.9 percent. Growth was not shared equally by different parts of the country; growth was fastest in the southern and middle agroclimatic zones and much slower in northern states. This resulted in the largest number of poor people being in the northern regions. Apart from regional characteristics, poverty is strongly influenced by education, age, and the nature of employment. With respect to education, 79 percent of urban extreme poor and 95 percent of rural poor had only primary schooling or less. The participatory poverty assessment indicated that more and more poor children do not attend school because they consider the quality of education to be weak and the link between education and employment to be minimal. Of all households, polygamous households experience the greatest depth of poverty, with the majority of them in the northern and middle zones. The majority of the poor in Nigeria are concentrated in poor communities.

Incentive and Regulatory Framework

Many significant events before 1985 affected the economy in general and the poverty situation in particular. The exceptionally high oil prices brought a huge inflow of oil revenues that drove the per capita income from US$1,300 in 1972 to US$2,900 in 1980. After 1980 oil revenues collapsed and real per capita income, expenditure, and consumption dropped precipitously. However, public expenditures on capital-intensive projects continued—increasingly financed by external borrowing—to the detriment of investments in human capital. The modest overall changes in per capita private consumption during the past two decades suggest that the majority of Nigerians did not benefit from the dramatic changes in average per capita incomes over the period. After 1980, other than falling oil prices, the slow and even negative growth in the economy, and especially in agriculture, and the adverse changes in relative prices encouraged imports and stifled nonoil production, resulting in distorted policies and increasing poverty. Thus the mismanagement of oil resources accentuated the terms-of-trade disparities between the urban and rural sectors, increased poverty in the rural areas because of choked-off agricultural production, and increased income disparities in urban areas, where those who could capture the benefits of distorted policies fared better than those who could not.

Although oil revenues remained low and government debts accumulated after 1985, other sectors, such as agriculture and domestic manufacturing, that had languished during the oil boom years began to grow again following improvements in the real effective exchange rate after the economic reform program in 1986. In contrast to the average decline in real GDP per capita of 1.8 percent per year between 1981 and 1987, Nigeria's real GDP per capita grew 5.4 percent per year between 1986 and 1992. Events since 1992 have eroded many of the positive changes that took place. Real GDP and consumption per capita fell 5 percent and inflation increased from 49 to 77 percent between 1992 and 1994. Most Nigerians, therefore, feel and are worse off now than they were

three or four years ago. Despite all of the intervening changes, both per capita income and private consumption in 1995 were lower in real terms than in the early 1970s, before the oil boom. Thus many Nigerians have a realistic perception that poverty has been continuous and is worsening.

Public Expenditures

Few public resources are devoted directly to providing social services to the poor. The problem is partly a lack of resources but also how these resources are allocated and managed. In 1990 estimated public expenditures on education and health services at all levels of government were about 15 percent of total government expenditures and 4.5 percent of GDP. Although these funds are not low compared with those of other developing countries, government funds have been erratic, fluctuating largely with oil revenues. More important, resources have not been used efficiently, resulting in serious deterioration in the quantity and quality of services and minimizing the benefits to the poor. Tertiary services absorb a disproportionately large portion of the government's recurrent and capital budget in health and education. Also personnel costs absorb a very high proportion of the recurrent budget, leaving very little for much-needed inputs, such as drugs and books. There is also very little transparency and accountability for the use of funds for social services at all levels of government. The roles of different levels of government in the provision of services, overlapping responsibilities, and the constant shifts of functions between one level of government and another have further compounded fiscal inefficiencies, making it difficult to assess total expenditures in the social sectors.

Safety Net

Currently there are very few successful safety net programs. So-called safety nets are inefficiently managed and do not reach the intended beneficiaries, and large overhead costs make them less desirable. Federally operated programs have not been successful because they have failed to include the intended beneficiaries in the design and execution of safety net programs. Large amounts of resources have been dissipated in ineffective safety net programs in the last two decades. Government could target the delivery of some services and resources to poor areas and communities, building on existing community-based organizations where possible.

Poverty Strategy

A successful poverty-reducing strategy in Nigeria will require a strong and focused emphasis on regional aspects of economic growth, increased access to social services, and adequate infrastructure and targeting. Nigeria faces three interrelated development challenges. First, it has to establish a viable and stable macroeconomic framework and streamline the incentive regime. Second, it needs to establish an enabling environment in civil society that encourages the delivery of quality services to the population. This will require emphasizing accountability and transparency. Third, it needs to adapt sectoral policies and rearrange priorities in public expenditures to meet needs identified in the participatory poverty assessment and promote efficient economic growth, increase productivity, and target the poor. To meet these challenges, Nigeria will have to shift away from policies and institutional arrangements that compete with the private sector and focus instead on policies, programs, and institutions that promote efficient, sustainable, and broad-based growth and job creation. The government needs to make a firm commitment to place poverty alleviation at the forefront of its development strategy and provide effective resource management and policies that can support a stable and growing economy, thus enabling Nigeria to take its place in regional leadership.

Statistical System

The primary manifestation of poverty at the household and individual levels requires data at the same level. Unfortunately, the socioeconomic database in Nigeria is limited, sometimes unreliable, and outdated. The National Consumer Survey was the basis of poverty analysis in Nigeria. This data set is mainly designed to provide weights for updating the current price index. Hence, its coverage is limited. For instance, there is no information on agricultural activities, crop mix, quality of land, value of assets such as livestock, and reliance on wage labor, which is a prerequisite for understanding the 70 percent of the poor whose main activity is agriculture. Based on the experience in preparing the poverty assessment, it is recommended that a systematic study on Nigeria's user-oriented data needs be conducted soon. The existing National Integrated Survey of Households needs to be updated based on user needs. Technical assistance should focus on strengthening current efforts to improve the quality and supply of data to users in a timely manner.

Pakistan

Poverty Profile

National accounts and household income distribution data indicate that consumption poverty in Pakistan declined from the early 1970s to the early 1990s. The analysis of household surveys in this report also indicates a substantial reduction in the incidence of consumption poverty between 1984–85 and 1990–91—from 46 to 34 percent, according to the reference poverty line used. The decline is robust to a wide range of alternative poverty lines. After 1990–91, the absence of household survey data precludes any definitive conclusions as to the trends in consumption poverty.

In terms of human development, Pakistan has also made some progress since the early 1970s, yet the country stills lags far behind the averages for comparable low-income economies—with a fertility rate that is 65 percent higher, an infant mortality rate that is 30 percent higher, and gross primary and secondary school ratios that are almost 50 percent lower. Moreover, the educational disparities between men and women in Pakistan continue to be quite pronounced. Both the incidence of consumption poverty and human development indicators differ significantly by urban-rural areas and by region. Rural areas have a higher incidence of poverty and worse human development indicators than urban areas. Among regions, rural South Punjab has a particularly high incidence of consumption poverty. In terms of human development indicators, Balochistan appears to be consistently poor relative to the other provinces.

The report also found a good correlation between households' human and physical assets and poverty status. For example, in urban areas, households headed by casual or manual laborers have a high incidence of consumption poverty, as do self-employed workers with less than Rs1,000 in assets in 1991 prices (about US$45). In rural areas households headed by tenants and agricultural laborers have a very high incidence of poverty, as do nonagricultural casual workers and self-employed workers with less than Rs1,000 in assets. Differences in human development indicators between the poor and the nonpoor are clear for education, with educational achievement being much lower among the poor. Differences in health indicators are less clear-cut, perhaps because poor households typically tend to underreport illness. Fertility is lower, and the use of family planning is higher, in nonpoor than in poor households, but the differences are not striking.

Incentive and Regulatory Framework

Economic growth in Pakistan has been generally good in recent decades. However, the government incurred high fiscal deficits from the early 1970s to the early 1990s, which it financed by heavy borrowing from abroad and from the domestic private sector. This policy became increasingly unsustainable during the 1980s as debt to GDP ratios rose, raising the prospect of a financial crisis with disastrous consequences for growth and poverty alleviation.

To forestall this danger, the government has been implementing an economic stabilization program since 1993–94. Although this program has achieved some success, it is critical that efforts to reduce the fiscal deficit be intensified. Pakistan's economy also has suffered from excessive government interference in the operation of its markets and from a lack of openness to the world economy. Since about 1980 the government has been addressing these problems, but progress has been slow. The broad areas of structural economic reform have been deregulation of investment and prices, privatization of state-owned enterprises, reform of the financial sector, rationalization of the trade regime, liberalization of foreign exchange transactions, reform of the tax regime, and more flexible management of the exchange rate. Structural economic reforms will need to be expanded and deepened in order to sustain high growth in the coming decades.

Concerning the effects of the economic reform and stabilization program on poverty, it is necessary to distinguish between aggregate effects and effects on particular groups. In the period of economic reform after 1980, growth performance has been better than in the 1970s, and this performance has resulted in a substantial decline in consumption poverty in the general population. Moreover, real per capita expenditure on primary education and on health (all levels combined) doubled between 1980–81 and 1990–91, and since 1992–93 there has been a concerted effort to expand the coverage—and to some extent improve the quality—of basic social services under the Social Action Program.

Some aspects of the economic reform and stabilization program, nevertheless, are likely to have had a negative impact on certain groups, at least in the short term. Thus, for example, adjustments toward a more efficient economic structure, such as those em-

bodied in rationalization of the trade regime, lead to changes in relative prices and in the composition of production and labor demand. And increases in indirect taxes reduce the disposable income of households. Of course, the poor are not the only group affected by these various adjustments; but the poor are also affected, and some households not previously poor may be rendered poor by the adjustments. These negative effects of economic reforms on certain groups of the population are to a certain extent counteracted by the existing safety net, especially private arrangements.

Public Expenditures

The report's analysis of public expenditures was limited to human development programs and targeted income transfer programs. Poor human development indicators essentially reflect a public sector failure to address four interrelated deficiencies with services: limited access to education, health, and family planning, especially among poor rural women and girls; poor-quality services, when they are provided; little accountability to clients; and insufficient government resource allocations to basic social services.

In response to these deficiencies, the government launched the Social Action Program in 1992–93—a broad-based intervention that is the centerpiece of Pakistan's human development strategy. Under the Social Action Program, allocations to basic social services have been substantially increased. Access to services is being improved by increasing the number of facilities, increasing outreach, and easing the use of facilities among women and girls (for example, by constructing sanitation facilities and boundary walls and changing the hours of operation). In order to improve the quality of services, provincial governments are recruiting more female staff in rural areas so as to make the services better suited to women.

Other measures being taken to improve quality include increasing the funding for nonsalary recurrent expenditures and emphasizing the use of merit-based criteria to recruit teachers and other social service staff. Several pilot projects are under way to increase community involvement in the provision of social services, which is expected to improve the accountability of services to clients.

Safety Net

Social protection arrangements in Pakistan are both private and public, with private arrangements being by far the most important of the two. Household survey data show that voluntary transfers among households are widespread and are especially important for the poor: 48 percent of households in the lowest quartile of the distribution of household consumption expenditures were net recipients of transfers in 1991. Moreover, these transfers financed an average of 49 percent of the total consumption expenditures of these poor households. But not all poor households receive these private transfers.

To protect households and individuals who fall outside the private safety net, the government has introduced targeted income-transfer programs. The two major programs targeted to the poor are the Zakat and Ushr and the Pakistan Bait-ul-Maal programs. These two programs pool resources obtained from the population at large and redistribute them to the neediest throughout the country. The government also operates a range of activities aimed at vulnerable groups through its Social Welfare Departments at the federal and provincial levels, often in association with NGOs. In recent years it has also launched several directed credit schemes to promote employment and self-employment, and it offers an array of untargeted subsidies (in addition to those implicit in directed credit).

These social protection arrangements suffer from several weaknesses. The coverage of the Zakat and Ushr and the Pakistan Bait-ul-Maal programs falls short of the intended targets, and benefits sometimes go to unintended beneficiaries. Directed credit schemes have not been a significant source of assistance to the poor and are unsustainable without periodic transfers of government funds (because of widespread failure to repay). The benefits of untargeted subsidies do not accrue to the poor for the most part.

Poverty Strategy

Public action to foster human development is a key ingredient of the recommended strategy to address poverty. Without sustained gains in health status and accumulation of skills, sustained improvements in

labor productivity and incomes will not be possible. Considerable progress in addressing deficiencies in basic social services has been achieved in recent years, but the achievements are still fragile. Vigorously pursuing the activities and policy reforms embodied in the Social Action Program is a key component of a comprehensive poverty-reduction strategy.

In addition to efforts to improve human development, the poverty reduction strategy should consist of three other components. The first is to deepen the process of economic stabilization and adjustment. This would entail renewed efforts to lower the fiscal deficit as well to deepen structural reforms, especially in the trade regime and financial sector. The second is to complement the general economic reforms in the stabilization and adjustment program with a set of sectoral reforms. For rural areas, sectoral reforms would include improving the structure of incentives for agricultural production, reorganizing and decentralizing the surface irrigation system, and reorienting public expenditures by agriculture sector agencies. Land policy is an additional topic for reassessment. In urban areas, high priority should be given to providing basic services in slums. The report also recommends that the government explicitly emphasize helping poor women to earn higher incomes. The final component of the recommended poverty reduction strategy is to strengthen the social safety net. Several steps could be taken to enhance the antipoverty impact of the targeted income-transfer programs. Government-run directed-credit schemes should be restructured. At the same time, NGO involvement in the provision of financial services to the poor and microenterprises, while relatively recent in Pakistan, is expanding. This development holds the promise of offering a more efficient alternative to providing financial services to the poor than governmental schemes. Other government subsidies that are not targeted at the poor should be reexamined. Phasing out untargeted subsidies would free up scarce fiscal resources that could be allocated to basic services, to worthwhile targeted programs that benefit the poor, and to reduction of the fiscal deficit.

Statistical System

Pakistan has been a pioneer in conducting nationally representative household income and expenditure surveys. The Federal Bureau of Statistics has been conducting such surveys since 1963–64, first at irregular intervals and since 1990–91 on an annual basis. However, the processing time of household surveys needs to be improved; so far the data have been made available with a lag of several years, which makes close monitoring of poverty trends impossible. In addition, Pakistan does not have an official poverty line. The government may wish to consider defining such a line, which would provide a benchmark for monitoring poverty trends, as well as setting an eligibility threshold criterion for various programs targeted at the poor.

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Philippines

Poverty Profile

The Philippines has achieved only modest reductions in poverty at a national level since the economic and political collapse of the mid-1980s. In addition, severe regional disparities remain. The proportion of households living below the official poverty line has declined slowly and unevenly, from 59 percent in 1961 to less than 39 percent in 1991 and around 36 percent in 1994. Urban poverty stood at around 23 percent in 1991, and rural poverty stood at 53 percent (by World Bank staff calculations). Food poverty (or households living below subsistence) was around 20 percent of households in 1991: 32 percent of rural households, and only 12 percent of urban households. However, the depth of poverty is relatively shallow (with the poverty gap index only 17 percent in 1991, having fallen 40 percent since 1961), and income disparities among the poor have declined noticeably.

Two-thirds of the poor are engaged in the agriculture, fishery, and forestry sectors and have an elementary school education or less. Since 1971 the urban poor have become a rising share of the total poor population, but still two-thirds of the poor live in rural areas. The depth of poverty is nearly 2.5 times larger in rural areas than in urban areas. The urban poor are concentrated in Luzon, while the rural poor live predominantly in Mindanao and the Visayas.

Poor households in the Philippines tend to live in extended families to conserve household assets. Thus, larger households have greater poverty than smaller households: households of eight or more members represent nearly a third of all the poor. The incidence and severity of poverty are significantly less among elderly and female-headed households in the Philippines, in striking contrast to the evidence from other developing countries, again because these households tend to be absorbed into others. This reflects women's strong position in the labor market in terms of relative pay and attachment compared with their position in many other Asian countries and even in many OECD countries.

Incentive and Regulatory Framework

The Philippines' performance on poverty reduction has been disappointing compared with that of the rest of East Asia, but the Philippines has not been able to sustain growth long enough to reduce its incidence of poverty to the levels attained by its neighbors. GDP growth averaged only 1.1 percent per year in the 1980s. Furthermore, the pattern of growth in the past tended to accentuate rather than reduce income disparities. Slow growth of higher-productivity sectors resulted in the absorption of labor in low-productivity employment in the 1970s and 1980s. The industrial sector shrank over this period, and agricultural growth slowed dramatically.

More important, poverty declines were modest even during the 1960s and 1970s, when the economy was growing rapidly, because of the distorted structure of the economy. Policies discriminated against labor, subsidized capital-intensive methods of production, and gave low priority to agriculture and exports. This resulted in growth that was narrowly based and inequitable, trapping many people in marginal, low-paying occupations such as upland agriculture, rural wage labor, and informal employment in cities. Infrastructure was highly concentrated in metropolitan Manila. Government interventions, especially in the 1970s and early 1980s, diminished the role of market mechanisms in favor of regulation by parastatals and promoted oligopolistic control in important sectors of the economy. This inward-looking strategy was inherently unstable, and so the economy lurched from one balance of payments crisis to another.

In the wake of across-the-board structural reforms of the financial sector, agricultural pricing and marketing, the tax system, the foreign trade and investment regimes, and government corporations, the experience of the Philippines in the late 1980s showed that accelerated growth in a more liberalized economy has a positive impact on the incomes of the poor and that poverty declines during periods of rapid growth. Between 1985 and 1988, when GDP growth averaged 4.8 percent, the poverty headcount fell 1.3 percentage points each year, an achievement equivalent to Thailand's long-term rate of poverty reduction. Analysis of the economic growth of 1985 to 1988 concludes that deregulation in agriculture and greater control over inflation were likely the key factors that improved the lot of the poor. Labor market performance also showed signs of improvement.

Public Expenditures

Public expenditures on education in 1994 were less than 3 percent of GDP—compared with 4 percent in Indonesia and 7 percent in Malaysia—despite inching upward since the late 1980s, after almost two

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decades of limited investment through the 1970s and early 1980s. Public primary education remains relatively underfinanced, and funding is based on pupil headcount without any compensatory mechanisms to assist the areas, schools, or ethnic groups most at risk. In the Philippines poor youth are much more likely to drop out of school or receive a poor-quality education.

The Philippines spends comparatively fewer resources on health than several other East Asian nations, both publicly and privately (spending 0.6 percent of GDP on public health and 2.4 percent on health overall). In addition, public health gains are not as great as they should be because health facilities and personnel are distributed poorly over the country. The poor would benefit from more emphasis on primary care and the reduction of environmental risk factors (which induce disease disproportionately among the poor). In many cases the improvement of other infrastructure such as rural roads would allow existing health facilities to be used more intensively.

As a result of the fiscal decentralization enacted in 1991, most traditional poverty alleviation programs except education have become the responsibility of local governments, limiting the ability of central authorities to implement programs of national priority. At the same time the current revenue-sharing arrangements with local governments (set by a legal formula) do not redistribute resources toward poorer provinces.

Also, by devolving functions and whole institutions to local government, expertise and efficiency in many areas have been (at least temporarily) lost and likely are weakest in poorer provinces. The variation in capacity and resources calls for continued attention by central authorities—for technical assistance, capacity building, and incentives to raise revenues locally.

Safety Net

The Philippines government has implemented a number of safety net programs, ranging from cash and in-kind income transfers (such as food subsidies and nutrition interventions) to wage employment programs and livelihood creation programs. In response to natural disasters, the National Food Authority distributes assistance to affected areas in the form of subsidized rice. In addition, the private sector, NGOs, and foreign donors have been assisting in the planning, financing, and execution of many of these programs.

However, the government's set of programs do not constitute an efficient and equitable social safety net: (a) they are fragmented and not a consistent or adequate response to the problem; (b) they have generally failed to mobilize communities to help themselves; and (c) recent changes of institutions and strategies are creating problems of transition that tend to obscure priorities in the government's delivery of social services or make additional demands on an ill-equipped bureaucracy and cadre of fieldworkers.

Poverty Strategy

Policymakers must not waver in keeping the economy outward-oriented and geared toward competition, because an East Asian-style economy is far more likely to be able to sustain the rapid and smooth rate of growth that is fundamental to improving the welfare of the poor. To reach the government's target of reducing the number of families living below the poverty line from 39 percent in 1991 (by official measures) to 30 percent by 1998, GNP will need to grow about 6.5 percent annually for 1996 to 1998. Many of the urban poor will be helped directly by growth, as employment opportunities respond to increased demand. Even a good number of the rural poor will find their incomes rising, as demand for agriculture-based products, especially exports, expands. However, significant reduction of rural poverty will require improvements in health and education and infrastructure (especially roads, markets, and agricultural extension).

Access to the means of production by the rural poor is crucial. It is time to revisit the issue of how to accomplish the goals of rural land reform so that the intended beneficiaries—the poorest farmers and landless agricultural workers—can benefit. The Comprehensive Agrarian Reform Program, which has accomplished a number of its original goals, is getting too expensive and complicated. Tenancy should be allowed once again, as a useful interim state between landless labor and owner-cultivator status. A market-assisted land reform program should be studied to explore options for reducing costs. Scarce public funds should be directed to investments with the greatest impact on the poor, such as investments in rural infrastructure.

In urban areas the scarcity of affordable housing (a problem aggravated by skyrocketing land prices) and threats to environmental health must be addressed. It is now urban, rather than rural, land re-

form that should be a priority for government action. Taxes and regulations on landownership and development need to be revised. A commission should consider options to balance the rights of dwellers in irregular settlements with the rights of legal owners of urban properties. Water and sanitation services must be extended to poor urban areas. The government should hesitate to spend more money on housing, which does little to help the truly poor.

Investment in human capital must be increased by improving the quantity and quality of primary education and the access to primary education in rural areas. Primary health services must be strengthened, especially immunization and the prevention of water-borne and respiratory diseases. The social safety net must be consolidated and targeted. General food price subsidies should be stopped in favor of targeted income subsidies, food stamps, and supplemental feeding programs. The national government should redirect resources formerly used for government livelihood programs to creating an enabling environment for private institutions to provide credit to the poor. To foster the growth of a healthy microfinance sector, government financial institutions should focus on wholesale lending, ensuring that adequate capital is available to reach the poor.

Statistical System

The key survey for poverty data in the Philippines is the Family Income and Expenditure Survey, conducted every three years. The survey questionnaire is of standard form, more or less comparable to a Living Standard Measurement Survey format. An important limitation on the relevance of these data for policy purposes has been the long delays in processing. For example, the 1991 results became available only in early 1995. Also, the household survey sample is not large enough to allow provincial indicators to be calculated for smaller provinces. This basic data set is not integrated with the social sector and other data (surveys on health, demographics, the labor force, and occasional censuses of population and housing) or with government expenditure information.

Monitoring poverty and the relative performance of provinces and cities is an important continuing role for the national government, even after fiscal decentralization. The report recommends that the government expand the household survey and integrate and improve existing statistics and program information. This information would provide crucial assistance to the provinces in setting priorities and in raising awareness, down to the community level, of how well the government is meeting the minimum basic needs of the people. The World Bank has provided technical assistance and grant funding to provide training and equipment to the government agencies (and has generated interest among other donors) and will continue to do so.

Romania

Poverty Profile

Romania embarked on an historic transformation from a socialist system to a market economy in 1990, after a decade of harsh economic conditions and social distress. In the early years of the transition the country realized a sharp economic contraction as it initiated economic and structural changes necessary for achieving sustainable growth and coped with the dislocation inherent in the breakup of a centrally planned system. Not surprisingly, household welfare mirrored the decline in economic activity. Poverty increased over the transition, with the main reason being the sharp decline in economic output. The distribution of income worsened but contributed less to the increase in poverty.

A precise definition of poverty is useful for the analytical purposes of this report. To this end, with the recognition that any poverty threshold is to an extent arbitrary, the report finds that about 21.5 percent of the population lives below a poverty line of 35,593 lei per person per month (April 1994 prices), or approximately US$3.30 per day. The line is based on a daily per capita intake of 2,425 calories, considered the minimum daily nutritional requirement for Romanian individuals. For consistency, the consumption level of the second decile is chosen for tracing the evolution of poverty over the transition. This level is approximately 50 percent of the mean per capita expenditure of the population.

Nearly half of the poor live with wage earners and the unemployed, while the rest reside with farmers and pensioners. The highest incidence of poverty, however, is among households headed by the unemployed (46 percent) and by farmers (40 percent). The poverty rate for the households of pensioners (19 percent) and salaried workers (17 percent) is much lower. More specifically, the poor in Romania can be divided into two groups: the transient poor and the longer-term poor.

Transient poverty is concentrated among salaried workers and the unemployed. Nearly half of the poor live in households headed by salaried workers and the unemployed, with the majority (70 percent) living in households headed by the working poor. Urban women with one or two young children and individuals with little labor market experience or secondary school education have the most difficulty finding employment.

Farmers and pensioners represent a longer-term aspect of poverty. Most of these poor individuals (70 percent) live in households with pensioners, and the remainder live in farm households. Although elderly rural women with low pensions are the poorest of all pensioners, they comprise only 19 percent of the poor. By comparison, there are 17 percent poor among individuals in wage-earner households, 46 percent poor among households headed by an unemployed person, and 40 percent poor among individuals in households headed by farmers. This pocket of rural poverty in the north of the country has remained intact over the transition.

Despite variations in the occupational and regional composition of poverty, poor individuals, and poorer regions and *judets*, share many of the same characteristics. Poor households have fewer wage-earning members (a lower activity rate) and relatively more non-working-age members than nonpoor households. Although the poor spend about 80 percent of their total expenditures on food, they consume fewer calories (only 1,504 calories per day compared with 2,472 for the average population). They also own fewer durables and smaller plots of land.

Romania has among the lowest health indicators in Eastern Europe, and the poor have the lowest health status in the country. According to the Ministry of Health's National Nutrition Survey for 1993, children in poorer rural areas also have a lower nutritional status. Low levels of education are prevalent among the poor. Children of poor households and children with less-educated parents have lower enrollment rates at each level of education, particularly in rural areas.

Incentive and Regulatory Framework

The government has pursued stepwise deregulations of foreign and domestic prices. Although the domestic and foreign price liberalization program began in 1990, consumer prices were "fully" deregulated in 1994 and the exchange rate has recently been liberalized. These ad hoc and stepwise measures have fueled inflation rates that are among the highest in Eastern Europe, reaching 300 percent per year in 1993 before declining to 62 percent per year in December 1994. Individuals faced an uncertain economic future and realized further declines in wages and fixed benefits.

The government adopted a strong stabilization program in 1993. The elimination of consumer subsidies allowed the budget, which showed a marked

deficit (7.5 percent of GDP) in 1992, to realize a small surplus (0.1 percent of GDP) in 1993. In late 1993, the government supplemented its tight fiscal policy with a strict monetary policy and liberalized the exchange rate regime. These policies had immediate results. By December 1994, inflation fell to 62 percent, output grew 4 percent, and exports increased 24 percent in dollar terms. These favorable developments were sustained only partially through 1995. Inflation fell to 30 percent at year's end, and growth rose to nearly 7 percent in 1995. However, these positive developments were overshadowed by an increase in the fiscal deficit to almost 3 percent of GDP by the end of 1995.

Despite the gradual progress of reform, the government has provided a solid framework for development of a market economy. Some of the country's key achievements are the enactment of a constitution guaranteeing property rights and the creation of a legal framework for a market economy; the establishment of a two-tier banking system and development of indirect instruments of monetary control; the reform of the tax system, including the introduction of a value added tax; and the development of a framework for privatization and corporatization of more than 6,000 enterprises.

Public Programs and Public Expenditures

The main purpose of government spending on cash transfers (child allowances and discretionary social assistance) and in-kind transfers is to improve equity and reduce poverty. Child allowances, health, and education are universal benefits and as such are not targeted to the poor. Also, unemployment benefits are geared toward the short-term unemployed and are not designed to protect against long-term poverty. The unemployment benefit scheme is an insurance program that protects individuals against a short-term loss of income. Public spending on education and health is guided by both efficiency and equity concerns.

Total government spending on the three main cash transfer programs—pensions, child allowances, and discretionary social assistance—declined from nearly 10 percent of GDP in 1990 to 8 percent in 1994. Most important, child allowances, the largest government cash transfer program (94 percent of all cash transfers, excluding pensions), decreased from nearly 3 percent of GDP in 1989 to less than 1 percent in 1994.

The decline occurred mainly because the government did not fully protect benefits against changes in the price level. Reduced protection to the poor—a result of a decline in food subsidies—was exacerbated by reduced spending on cash assistance programs. On the positive side, in 1991 the government instituted an unemployment insurance program to protect workers laid off or fired as a result of plant closings. In 1994 the program covered 500,000 unemployed and paid out benefits amounting to nearly 1 percent of GDP. Public spending on health and education (about 3 percent of GDP for each) has remained fairly constant over the transition but is biased toward programs for the richest 20 percent of the population and urban areas. It is also the lowest in the region. The government has recently increased spending on education to approximately 4 percent of GDP.

Poverty Strategy

Romania has considerable scope for reducing poverty by promoting economic growth and by targeting cash transfers and public investments more effectively and efficiently to the poorest households.

Sustained growth (along the levels of 4 and 7 percent in 1994 and 1995, respectively) will be critical to alleviating the poverty of wage workers and the unemployed. The basic strategy involves sound monetary and fiscal policies, a reduced role for government in financial and product markets, a market-based price regime, and a more conducive environment for private sector growth.

In rural and agricultural areas, where the incidence of poverty is highest, agricultural sector reforms (encompassing the development of a land market and increased private sector involvement in the supply, distribution, and marketing of inputs) should raise the agricultural growth rate, increase average incomes, and reduce rural poverty.

To protect the poor through efficient and effective public transfers, the government initiated a new means-tested program in 1995 as a response to the low level of protection offered by previous transfer programs and their inefficiency in targeting the poorest groups. The new social assistance law consolidated and phased out many discretionary social assistance benefits, linked the remainder of these benefits to income, simplified the claims procedure, and strengthened the delivery system. These measures can be made more effective through the following proposals:

- Monitor the efficiency and effectiveness of the newly instituted means-tested social assistance scheme. This new scheme guarantees a minimum

income of 70 percent of the poverty line, or 45,000 lei per person (for a single-person household) in 1996. Thus if *all* individuals eligible for this program are correctly identified and *all* claim the benefit, the incidence of poverty would be significantly reduced.

- Improve the targeting efficiency of child allowances and discretionary social assistance. The stipulation that all school-age children be enrolled in school to collect benefits should be reconsidered (at least for secondary school education) given the low rates of enrollment of poor children. Changes in the system of delivering discretionary social assistance programs should continue to be monitored to ensure that new mechanisms for delivering benefits and processing claims target these transfers more efficiently. Pockets of poverty among pensioners should be addressed through the means-tested social assistance system.

Investments in education and health will alleviate poverty and help reduce interregional disparities in income. The education sector has reduced the emphasis on vocational and technical education and promoted private educational institutions. The curriculum is being changed to ensure that graduates from the public education system are suited for a market economy. Health outcomes of the poor in general and the rural poor in particular could be improved by reallocating spending from tertiary care (hospitals) toward improvements in the quality of primary health care, mainly in poorer and less well-served rural regions, and toward investment in sanitation and water supply facilities.

To promote labor market policies that are pro-poor and conducive to economic growth, steps have been taken to make labor markets more flexible and responsive to economic conditions. Restrictions on labor mobility have been eliminated, and wages have been allowed to adjust to economic conditions.

The government should consider additional measures to increase the flexibility of labor markets:

- *Keep minimum wages low.* Minimum wages protect workers who are already employed and are likely to discriminate in favor of workers with higher skills. As a result, they may create unemployment for younger or less-skilled workers. Because unemployment is likely to increase over the transition, minimum wages should not be institutionalized in the private sector as they may discourage employment. In the public sector, minimum wages should be kept as low as possible.
- *Phase out the wage subsidy program.* The wage subsidy program could be turned into a marginal employment subsidy program, targeting the long-term unemployed and secondary school leavers.
- *Make training programs more responsive to labor market conditions.* The government is currently promoting training programs, which would best serve unemployed workers by allowing them to acquire the necessary skills to reenter the labor force.
- *Develop a more progressive tax system.* A progressive tax structure should accompany the transfer and investment system. The tax structure in Romania appears very progressive, but the government could still raise revenues without worsening the distribution of income by taxing rent, petroleum, tobacco, and public transport.

Statistical System

The government has so far used data on social policy from the Family Budget Survey, which is not a nationally representative data set. The government should use the newly initiated and nationally representative Integrated Household Survey to derive minimum benefits, identify the poor, and evaluate the incidence of public spending. The Statistical Office is committed to continuing the new household survey and replicated it in 1995 and 1996. However, the ability of the household survey to measure agricultural and other self-employment income and to capture the incidence of public spending on education could be improved further. In addition, the survey could include a community price questionnaire to alleviate problems in constructing price indexes.

Tanzania

Poverty Profile

Tanzania's Economic Recovery Program, initiated in the mid-1980s, has improved growth and reduced poverty. Household income surveys show that the headcount rural poverty index fell from 65 percent in 1983 to 51 percent in 1991 and remained broadly the same during 1991–95. About 92 percent of the poor are rural residents; about 40 percent of urban dwellers outside Dar es Salaam are poor. The poor tend to have large families, and they are more likely to be illiterate and isolated from markets. Female-headed households are not likely to be poorer than male-headed households. Although women may have access to productive assets, such as land, their ownership is often limited.

Income distribution is uneven. The average adult equivalent expenditure of the top quintile was 6.24 times greater than that of the bottom quintile in 1993. However, the top quintile income group is by no means wealthy; it had a per capita income of US$540 in 1993, almost equivalent to the average per capita income for low- and middle-income Sub-Saharan African countries. The quality of land, cash and export crop production, and access to education and infrastructure were the main factors contributing to household incomes.

Incentive and Regulatory Framework

The reforms restored incentives, which had been distorted by decades of socialist controls. Controls on agricultural markets and prices were abolished. Restrictions on exports and export receipts and quantitative import controls were lifted. Taxes were simplified; the number of sales tax rates dropped from seven to two in the 1990s. Official exchange rate controls were phased out, and a market-determined system was established in 1994. Interest rate controls and restrictions on private banking were removed. Investments were deregulated, and about a third of parastatals were privatized or liquidated under a reform program initiated in 1993.

With the reforms, GDP growth more than doubled to an average of more than 4 percent, reversing the decline in per capita income. The growth was led by agriculture, which expanded at an average annual rate of about 5 percent after the mid-1980s, more than twice the average for African countries. The informal sector expanded faster than official GDP. The share of the urban informal sector in total GDP rose from 10 percent to almost 15 percent between 1985 and 1991. Real export growth averaged about 4–5 percent.

Public Resource Management

Persistent fiscal deficits are a serious threat to sustaining the progress made. The fiscal deficits reflect an underlying ineffective public administration: weak tax administration and weak expenditure management and control, as well as debt overhang. Financially weak state-owned banks and inefficient parastatals add to the fiscal pressure.

Social expenditures are low, despite considerable efforts to provide more resources to support them. Social indicators stagnated when the economy and revenues declined in the late 1970s and early 1980s, and they remain poor. Private delivery of social services was restricted until recently.

Safety Net

Extended families constitute the principal safety net in Tanzania. In 1991 private transfers accounted for no less than 18 percent of total household income for the poor and the very poor. The main government safety net programs (for unemployed youth, orphans of AIDS, elderly and marginalized women and children, the handicapped, and the homeless) are not well targeted to the poor. Given the fiscal crisis, greater focus needs to be put on income-generating activities rather than subsidy programs. Off-season, labor-intensive, rural infrastructure programs are being pilot tested and need to have priority.

Poverty Strategy

Despite the progress, about half of the population still live in poverty, and the current 4 percent growth rate will not dramatically improve poverty. At that growth rate, and if income distribution is unchanged, about 35–40 percent of the population will be living in poverty a decade from now.

Pro-poor growth policies would give top priority to rural and agricultural development based on the activities of small farmers. Access to extension services and to markets, development of water resources, and application of modern inputs would raise productivity and incomes. The new land policy stands to strengthen security of tenure, if imple-

mented with close participation at the local level. In the immediate term, the strategy stresses revenue and expenditure measures to attain a stable fiscal stance. Human resource development would stress the flow of resources to the social sectors, private and local participation in social service delivery, and selective targeted programs for girls based on income. The strategy would foster private sector development and capacity building emphasizing civil service reform, financial sector reforms, and infrastructure development.

Statistical System

Official data understate economic activity. Per capita income is estimated officially at US$100, but household surveys indicate a figure closer to US$200. As the private sector expanded with reforms, data provided by parastatals, which used to gather information, no longer reflect overall economic activity. Informal sector activities have flourished with liberalization but are not adequately documented. Technical assistance being provided for the Bureau of Statistics should improve the situation.

Thailand

Poverty Profile

Until the end of the 1980s Thailand had an impressive longer-term record in poverty reduction. Poverty incidence had fallen from more than 57 percent in the early 1960s to about 22 percent in 1988. And significant complementary gains had been made in most social indicators, including infant mortality, primary school completion, and life expectancy. Despite this secular improvement, the reduction in poverty slowed during the 1980s, with the number of poor actually rising between 1981 and 1988. This slowing pace of poverty reduction, especially in the poorest regions, raised concerns that the link between poverty reduction and economic growth had weakened.

Recent analysis of data from the Socio-Economic Surveys show that the slowdown in poverty reduction during 1981–88 was a temporary lull in the longer-term decline of poverty in Thailand. Using official poverty lines, the incidence of poverty fell sharply during 1988–92, from more than 22 percent to about 13 percent. The dramatic reduction in the number of poor was matched by declines in the depth and severity of poverty.

Although the incidence of poverty and its severity declined across the country, the decline was not uniform across regions. By 1992, while poverty incidence was very low in and around Bangkok (just over 1 percent), more than a fifth of the population in the northeast and a seventh of those in the north remained poor. The most distinctive characteristic of the poor in Thailand, therefore, remains where they live. In 1992 more than three-quarters of the poor lived in the northeast and the north, significantly more than the population shares of these regions. The other notable locational feature is the concentration of poverty in rural areas. Almost 85 percent of the poor lived in rural areas in 1992, and this proportion had risen since 1988.

Educational attainment is a second attribute that differed significantly between the poor and nonpoor. While about 85 percent of household heads in 1992 had a primary education or less, almost all of the poor were in this category. Occupational status of the household head also differed between the poor and nonpoor: almost three-quarters of the heads of poor households in 1992 were involved in agriculture, compared with one-half of the heads of poor households in the overall population. The link between poverty and agriculture is further illustrated by the relationship between the household's socioeconomic status and income level. While about a third of the population in 1992 were in households that owned and operated land, almost 58 percent of the poor were in such households. The poor also differ from the nonpoor in certain aspects of demographic structure. Poor households are larger—on average, they have almost one additional person—and have higher dependency ratios than the nonpoor.

Two demographic features, however, that do not appear to distinguish poor and nonpoor households are age and gender of the household head. With regard to age, the structure of poor households is almost the same as that of nonpoor households, the only exception being that a larger proportion of poor households is headed by individuals over age 60. The association between gender and poverty is even weaker. The proportion of poor households headed by women is roughly the same as that for the nonpoor. This finding contrasts with that in many other developing countries where female-headed households are overrepresented among the poor.

Trends in Inequality

While the overall reduction in poverty during 1988–92 is encouraging, the increase in income inequality is not. Just as consistently as poverty fell, income distribution in all regions became more skewed. For Thailand as a whole, the Gini coefficient rose from 0.485 to 0.536; the ratio of income received by the richest fifth of the population to that received by the poorest fifth increased from 12 to 15; and the relative income share of the richest tenth of the population to that of the poorest tenth rose from about 21 to 28.

One reason for concern about this increase in income inequality is its negative impact on poverty reduction. Had inequality not risen, the reduction in poverty during 1988–92 would have been even greater. The sharp decrease in poverty that occurred despite the distributional shift only shows the strength of the effect of income growth. This increase in inequality also distinguishes Thailand from its middle-income neighbors in East Asia, and if inequality were to continue rising, it could hamper the prospects for sustained medium-term growth.

Among the various components of income, wages and salaries and entrepreneurial income contributed most to higher inequality. Although wage earnings, unlike entrepreneurial income, were distributed more

equally, their overall effect was disequalizing because the expansion of formal sector employment occurred more among better-off households. The increase in inequality was also not uniform across the kingdom. Wider income differentials between households in different locations (both between rural and urban areas and between regions) accounted significantly for the increase in overall income inequality. Hence, differences between regions became more prominent sources of higher inequality.

Safety Net

Safety net programs provide cash and in-kind transfers and generate employment. The cash transfer programs include direct cash assistance to needy families in poverty, monthly payments to the elderly who lack other means of support, and village community funds for assisting poor residents. The major in-kind transfers targeted to the poor are the low-income card program, which provides free medical services to the poor, and the school lunch program for poor school-age children. The main income generation program is the poverty alleviation project, which provides interest-free loans to poor households as seed money for investments in income-generating activities. Apart from these targeted programs, there are developmental programs, part of whose rationale is their beneficial impact on the poor. Examples include an infrastructure development program that has a public works component aimed at providing rural infrastructure and employment generation and a program of cash transfers that assists women and children.

The level of spending on these safety net programs (including some nontargeted programs that benefit the poor) remained modest (about 1.6 percent of total government expenditures) between fiscal 1990 and 1995. Hence, the perception that a considerable amount of resources is being devoted to assisting the poor and that these levels have risen substantially is misplaced.

These modest levels of public spending make it more critical that individual programs be well targeted and improve welfare. However, the analysis of each of the major safety net programs shows problems with both their efficiency in reaching the poor and their effectiveness in raising the welfare of the poor. A proliferation of schemes involve multiple agencies. Coordination between these agencies is poor, with each using its own criteria to identify the target poor. Many of the programs have multiple goals besides that of helping to reduce poverty. And there is little emphasis on ex post evaluation to guide the design of existing or new programs.

Poverty Strategy

The rapid growth in Thailand during 1988–92 contributed to substantial and widespread reductions in the incidence and severity of poverty. In particular, economic growth benefited workers in the formal and informal sectors. Real labor earnings rose on average, and their distribution both across individual workers and households became less unequal. However, wages and salaries contribute to aggregate income inequality for two reasons. With structural change, formal sector employment has grown rapidly, thereby increasing the share of wages in total incomes. And these increased formal sector jobs have not been allocated equitably across households. Therefore, policy should emphasize removing the main supply-side constraint on participation in wage employment, which remains the lack of adequate education for almost half the population who leave school without a junior secondary education. Expanding access to secondary education for individuals from poorer households and in lagging regions would not only help sustain growth but also promote equity across income groups and regions. In contrast, direct wage or employment regulation of labor markets in order to achieve redistributional goals is likely to be ineffective and could hurt the poor by slowing the growth of formal sector employment.

Another important policy goal related to poverty reduction is the reduction of child employment. Although the incidence of child labor fell sharply as growth accelerated in the early 1990s, there remains a compelling case for government intervention to deal with child labor. About 1.6 million children (below age 15) remain out of school, and many of these working children are employed under harsh conditions. The counterpart of child labor is failure to complete primary and junior secondary school, and this should be one target for policy. Because the main constraint appears to be the ability of households to finance education, a promising measure would be to offer a direct subsidy for junior secondary school attendance targeted to the hard-core rural and urban poor. This should be supplemented with vigorous enforcement of regulations to improve employment conditions for child workers and prohibit the use of child labor in certain areas, and specific project interventions

whereby communities and NGOs work with government agencies in targeting particular activities or areas in which child workers face persistent problems.

To improve the efficiency and effectiveness of safety net programs, the main schemes by which the poor are to be assisted should be delineated, and clear poverty-oriented goals should be articulated. Budgetary resources for these programs should be allocated to districts and provinces where the levels and severity of poverty are the greatest. Specific design changes in programs are also needed to improve their efficiency in targeting the poor and enhancing their effectiveness in raising the welfare of the target groups. Finally, systematic and periodic evaluations of antipoverty programs should be undertaken so that ineffective programs can be discontinued while more promising initiatives can be expanded and funded more generously.

Statistical System

To make the Socio-Economic Surveys more useful for policymaking, two issues need to be addressed. The reasons for the long delays in the compilation and dissemination of survey results and data should be identified and addressed to ensure that the considerable expenditures made in undertaking these biennial surveys are not dissipated. And to make the Socio-Economic Surveys more useful for policymaking, relatively minor changes in the questionnaires and data collection would provide valuable information on the role and distributional impacts of public transfers on reducing poverty as well as allow a comparison of their significance with private transfers for various income classes. It is also necessary to establish a framework for systematic and periodic evaluations of safety net programs. Specifically, information concerning the characteristics of beneficiaries should be collected systematically for all programs. In addition, data concerning loan repayments should be compiled for all income generation programs based on the provision of credit, and comprehensive data should be maintained for rural works programs.

Togo

Poverty Profile

In 1992–93, the unstable political situation and economic deterioration in Togo resulted in a reduction of GDP (a 6 percent decline in 1992 and a 15 percent decline in 1993). The recovery experienced after 1994 (14 percent in 1994 and 8 percent in 1995) was the result of improved political and economic conditions and the incentive represented by devaluation of the CFA franc in 1994. However, the political and economic environment is still fragile. The transition to democracy is troublesome, the budgetary situation remains difficult, and foreign aid is much lower than it used to be. In 1996 the average Togolese was worse off than in the early 1980s.

The poverty assessment defines poverty as a multidimensional phenomenon that cannot be reduced to a few quantitative indicators. The analysis identifies the poor through the use of poverty lines derived from household consumption levels but discusses other aspects of poverty as well. Poverty is distributed very unequally across the country. It is more widespread in rural areas and in the north, with the Savanes region being the poorest (the headcount index is 69). Nutritional indicators provide a consistent picture, with malnutrition increasing from south to north. Starting in the mid-1980s, rapid population growth and economic decline contributed to a deterioration in all key educational and health indicators. Primary school enrollment rates declined from 71 percent in 1980 to 60 percent in 1994, and there are significant and persistent gender differences in school enrollment. High infant and maternal mortality (86 per 1,000 and 476 per 100,000, respectively) and a high incidence of transmissible and parasitic diseases remain. As of June 1994, seroprevalence was estimated at 5 percent of the population.

To take into account the dynamic nature of poverty, the poverty assessment uses the concept of vulnerability, which is defined as a function of assets: the more assets people have, the less vulnerable (exposed to risk) they are. Poor people are usually among the most vulnerable, but not all vulnerable persons are poor. Vulnerability is determined by factors grouped into three categories according to their level (individual or household, community, and national) and their nature (natural, social, and economic). Typical vulnerable groups include pregnant and lactating women and children under 5. Two vulnerable groups specific to Togo are (a) displaced families, including those forcibly evicted by the government for the creation of national parks (in the north) and for the exploitation of phosphate mines (in the Vo district), as well as the victims of violent strife in 1992–93, and (b) girls from poor rural families working in urban households as domestic servants.

Raising the incomes of the poor will require an increase in their productivity. As almost 80 percent of the poor are farmers, improving the poor's productivity depends on ensuring their access to potentially productive land. However, demographic pressure and predominant cultivating practices result in land scarcity and considerable environmental degradation. The problem is exacerbated by a complex system of land tenure in which traditional and modern laws coexist. Unfortunately, alternatives to agricultural employment are limited. Agriculture employs about 70 percent of the population, and the only other realistic option is the informal sector (which employs more than 20 percent of the labor force). Although the official minimum wage is one of the lowest in the CFAF zone (CFAF 13,757 per month) and well below the poverty threshold, the high unemployment rate in urban areas is likely to continue to rise. Access to credit, which the poor have identified as a priority to improve their productivity, is only available through informal systems (mostly savings clubs or *tontines*).

Although the government has voiced its intention to support private producers, the potential of the agricultural sector is far from being realized. Farmers' concerns include weak extension services, irrelevant agricultural research, unfavorable terms of trade, uncertain land tenure, insufficient transport and storage infrastructure, problematic access to water, and, in particular, insufficient access to credit and fertilizers. In spite of official estimates, food security remains an elusive target for a sizable part of the population, and government interventions through the activity of Togograin (a parastatal) have had minimal success in alleviating these problems.

The government's commitment to health for all was affirmed in its 1978 and 1990 policy statements, and some progress has indeed taken place recently, mostly thanks to the Bamako initiative. However, health care delivery is still hampered by inadequately articulated priorities, which result in serious geographic imbalances; insufficient funding, which makes access to medical supplies particularly problematic; poor collaboration both within the ministry and with other public services, which lowers effi-

ciency; and structural constraints on service delivery. The high cost of medicines and the perceived poor quality of services explain why poor people resort to self-medication and traditional healers.

After a period of growth from 1975 to 1980, the education sector entered a crisis: the net primary enrollment rate declined from 71 percent in 1980 to 61 percent in 1994–95, while student repetition rates increased and educational achievement levels declined. The two main factors contributing to this decline were rapid population growth in the face of hard budget constraints and policy choices that privileged tertiary education at the expense of basic education. The perceived low returns to schooling are one of the main reasons why many poor do not send their children to school; cultural beliefs represent an important obstacle to higher levels of female education.

In Togo formal responsibility for assistance to the poor falls mainly on the Social Affairs Directorate, presently in the Ministry of Women in Development and Social Affairs, which operates through 135 social centers; the National Solidarity Agency (created in 1992) is supposed to complement the activities of the Social Affairs Directorate. These institutions, however, are understaffed and underfunded and have unfocused mandates. The assistance gap is thus filled in part by NGOs, including religious associations, and by traditional safety nets—basically, extended families.

Poverty Strategy

In the case of low-income countries such as Togo, it may be difficult to distinguish between a development strategy and a poverty reduction strategy. Because poverty and vulnerability are widespread, a development strategy must coincide to a large extent with a poverty-reduction strategy, and significant poverty reduction can only be envisaged in the presence of economic growth. Hence policies aimed at ensuring macroeconomic stability and consolidating the economic recovery that started in 1994 should be seen as the necessary context for the success and sustainability of interventions to attack the direct causes of poverty. Economic growth, in turn, has to be accompanied by improved social services for the poor, in terms both of accessibility and of quality and relevance. Improved governance, which is closely linked to long-term economic growth, should be an overarching preoccupation. Three aspects of governance should receive particular attention: bureaucratic accountability, economic transparency and efficiency, and a well-functioning judicial system.

A poverty reduction strategy should hinge on four main priorities:

- *Land tenure reform and access to land.* Land tenure problems have to be addressed because land is a fundamental asset for 80 percent of the poor who live in rural areas, and because failing to address them will have disastrous long-term consequences for the environment. Efforts to improve access to land for vulnerable groups (especially women and youth) should be the starting point and pivot on negotiations among interested groups at the community, district, and regional levels.
- *Demographic growth management.* Unchecked demographic growth will magnify environmental problems, make it impossible for the government to provide acceptable levels of social services and fuel unemployment and underemployment. Togo does not yet have a population policy; one of the central elements of such a policy would be efforts to limit fertility rates and promote responsible parenthood.
- *Decentralization.* This is necessary to improve the effectiveness, speed, and targeting of interventions: the best way to help the poor is to move the center of action closer to them. This could be done by improving the institutional framework, strengthening local institutions, mobilizing local finances, and encouraging the decentralization of civil servants.
- *Regional action plans.* A regional approach would have two main advantages: it would facilitate decentralization and a bottom-up approach, and it would enable interventions to respond to the priority problems of each region. Hence, separate regional action plans should be developed through consultation between government and civil society, and funds should be made available directly to institutions at the regional level, not just to government agencies. A future option could be to establish five autonomous regional development funds (one per region).

Statistical System

Once policies have been adopted and interventions are in progress, information is crucial to evaluate their effectiveness. A monitoring system is therefore required, using routine administrative records, information gathered by NGOs, studies carried out by training and academic institutions, and large-scale surveys.

Trinidad and Tobago

Poverty Profile

During the 1990s, some two decades after the beginning of the prosperous oil boom years in Trinidad and Tobago, per capita income has fallen to its level before the oil boom, while both poverty and unemployment are steadily increasing. The poor comprise approximately 21 percent of the population, with about half of them unable to afford a minimum food basket. The subgroups among the poor include the unemployed, individuals with low levels of education, and female-headed households. Poor households are also more likely than nonpoor households to be larger, to have more children, and to lack a nuclear family structure.

Poverty is evenly divided between urban and rural areas, although it is more severe in urban areas. In urban areas, as is the case in other Caribbean countries, the economic pressures of the poor coupled with high youth unemployment have contributed to growing problems of crime and drug use. The problem is acute among male youth. As crime and violence continue to increase, they will have detrimental effects on the economy and society as a whole.

Incentive and Regulatory Framework

Since the early 1960s Trinidad and Tobago's economy has been characterized by its heavy dependence on the production and export of petroleum and gas. Oil windfalls between 1973 and 1982 brought rises in income, expansion of jobs in the public sector, investments in physical infrastructure, and improvements in living conditions. The investment expenditures during the boom years were heavily dependent on the flow of oil reserves and were aimed at unsustainable sectors. Public spending and production subsidies increased in areas such as public employment and transfers to alleviate the continued high rates of unemployment attributed to the capital-intensive nature of the oil sector. The high wages in the public sector inflated labor costs throughout the economy, undermining competitiveness in the nonoil sector. Only a small number of the jobs created were in the long-term goods-producing sectors.

As international prices declined during the 1980s, the economy contracted sharply, with an average annual decline of 4.5 percent between 1982 and 1989. Per capita GDP dropped from US$6,600 in 1982 to US$3,700 in 1993, while the unemployment rate nearly doubled, from about 10 to 20 percent. With the economic decline of the 1980s and lack of development in growth areas, the government was no longer able to sustain its high level of expenditures. The rise in unemployment, decline in the real value of social sector spending, and retrenchment of workers in both the public and private sector led to an increase in poverty. In addition to the structural problems in the economy, administrative interventions potentially create distortions in the labor market and do not promote labor-demanding growth, thus contributing to unemployment.

Overcoming the persistent unemployment that has characterized the economy for several decades will require diversification away from oil and gas to sectors such as agriculture, tourism, and small-scale manufacturing. Promoting growth will also require rebalancing the roles of the public and private sector. To accomplish this development agenda, several priorities have been identified:

- Reinforcing the macroeconomic environment by maintaining macroeconomic stability, insulating the economy from oil price volatility, increasing savings and investment, and promoting a policy agenda for economic diversification and private sector development
- Improving infrastructure services by gradually increasing public sector investment in infrastructure, encouraging private sector participation in the provision of infrastructure, and improving the capacity to implement projects through reform of public sector management
- Refocusing the public sector and strengthening its institutional capacity to facilitate economic development.

To promote the flexibility and competitiveness needed to foster labor-intensive growth while ensuring adequate standards for the workforce, several aspects of the labor legislation and administrative processes require reform. Other changes, such as creating a new role for trade unions and promoting efforts to reduce gender discrimination, will also have a positive impact on the functioning of the labor market.

Public Expenditures

Despite the decline in public expenditures over the past decade, health and education expenditures still compare favorably to regional averages: public health expenditures amount to 2.3 percent of GDP, and pub-

lic education expenditures are 4 percent of GDP. Past investments have contributed to favorable social indicators. There are, however, serious problems related to the quality of basic primary education and basic health services. In addition, there are inequities that put the poor at a further disadvantage.

In the education sector international performance indicators reflect low educational standards. Inequities begin at an early age, with limited enrollment in preschool by the poor, and with vast differences in quality by type of school and tracking system at the secondary level.

In the health sector, the inequities are less pronounced, although major inefficiencies in the system divert important resources from the provision of quality care. Many health facilities in the public sector are poorly run or understaffed and have inadequate support services. Individuals must wait in long lines, receive prescriptions for drugs that are not always available, and have few options for treatment of prevalent chronic illnesses.

In both education and health the poor cannot afford the private costs of additional inputs, such as textbooks and medicine, that have a positive impact on educational achievement and health status.

Safety Net

In addition to basic social services, many safety net programs are available to the poor, although the potential gain from these programs is tempered. The safety net suffers from the lack of an overall policy framework and lead agency, high administrative costs, and significant duplication and gaps in coverage. The duplication in benefits provides some individuals with a strong disincentive to leave the welfare system, while the absence of benefits leaves others destitute. The largest programs include public assistance, old-age pensions, feeding programs, employment programs, community development programs, and a range of training, extension, and business development services for the economic rehabilitation of the unemployed.

Total expenditures on safety net programs are around 4 percent of GDP; however, because of the decline in GDP, the real value of these transfers has declined. NGOs have been playing an increasingly important role in poverty alleviation in Trinidad and Tobago, although there are still deficiencies in the program implementation of many groups.

Poverty Strategy

For Trinidad and Tobago the five areas of highest priority for reducing poverty include (a) promoting broad-based, sustainable growth in nonoil sectors; (b) improving the functioning of the labor market by reforming specific administrative interventions to reduce rigidities, distortions, and gender discrimination; (c) improving both quality and equity in the education sector; (d) supporting health reform to reduce current inefficiencies while ensuring quality and maintaining equity; and (e) reforming the safety net so that programs more adequately meet the needs of the poor without wasting resources.

Any programs and policies aimed at reducing poverty and unemployment will require a strong commitment from the government, local communities, NGOs, the private sector, and the international community. The government must take a lead role by maintaining a macroeconomic and incentive framework conducive to private sector-led growth, refocusing the role of the public sector, improving infrastructure, and supporting the reforms in health, education, and the social safety net. The gains in efficiency achieved through reform will ensure the financial sustainability of these improvements.

NGOs, community groups, and individuals will need to participate more actively in poverty reduction efforts as the role of the public sector shifts. This can be fostered through information sharing, consultation, and decisionmaking at the local level. International agencies can continue to work closely with government to implement their development strategy.

Statistical System

Implementing these policies will require a stronger base of information with which to monitor and evaluate key poverty problems over time and formulate strategies to address them. The shrinking resources provided to the Central Statistical Office have meant both a decline in the amount of information collected and a lag in the analysis of information that does exist. Ensuring the regular collection and analysis of data such as the Survey of Living Conditions will provide policymakers with an important tool for decisionmaking. This could be achieved through institutionalizing a collaborative effort between agencies such as the Ministry of Planning and the Central Statistical Office.

Tunisia

Poverty Profile

Tunisia is a good example of successful adjustment with a favorable impact on the incidence of poverty. The government's adjustment program and pro-poor policies have reduced income inequality and poverty: the number of poor was reduced from 11 percent of the population in 1985 to 7 percent in 1990. The estimated number of poor, however, is very sensitive to changes in the poverty line: if the poverty line were raised 25 percent, the share of the population in poverty would increase from 7 percent to about 14 percent. Key characteristics of the poor are as follows:

- Poverty remains primarily a rural phenomenon: about two-thirds of the poor live in rural areas.
- There is a marked disparity in poverty among regions: the northwest followed by the center-west have the highest incidence of poverty. These regions are characterized by hilly terrain and by their distance from the more dynamic economies of the eastern coastal cities.
- In both rural and urban areas poor households tend to be above average in size, have a high dependency ratio, and tend not to be headed by young breadwinners.
- There is a strong association between lack of human capital and poverty in both rural and urban areas: two-thirds of the poor belong to households whose breadwinner has no formal education.
- In both rural and urban areas most of the poor earn their living as wage earners, followed by self-employment in nonagricultural activities.
- The rural poor derive their incomes primarily from agricultural activities (own-farm activities and agricultural wage labor) but commonly also earn income outside agriculture. Many rural poor also own land and livestock, but their landholdings are small, are rarely irrigated, and have low productivity.

Incentive and Regulatory Framework

Tunisia's success in reducing poverty, even during the structural adjustment of the mid-1980s, is the product of the government's long-standing commitment to social development. The following features of the economy helped to keep poverty under control during the adjustment:

- While undertaking sustained fiscal adjustment, the government protected the public expenditures in social sectors most important to the welfare of the poor.
- The growth pattern, about 5 percent a year between 1985 and 1990, generated jobs at low wages and for unskilled and temporary workers in a few labor-intensive export activities (textiles and tourism).
- Despite the fall in the real wage, disposable household income increased, and income distribution improved.

Public Expenditures

Tunisia's poor have also benefited from government programs in the social sectors (education, health care, and basic infrastructure). Despite significant improvement in the living standards of the Tunisian population, including those of the poor, progress in social indicators has not been uniform across the country, and significant disparities remain between urban and rural areas.

- In education, although access to primary education has improved for the poor, the high selectivity of the school system tends to have a social bias: half of all children who begin school drop out before completing basic education, and these dropouts are disproportionately from poorer families and girls in rural areas.
- Although almost all of the population, regardless of income, has access to basic health care, disparities remain between urban and rural areas: the share of women receiving prenatal care is still 35 percent lower in rural areas than in urban areas, and infant mortality is highest in the country's poorest western region, in the south, and among lower-income groups.
- In basic infrastructure (potable water and electricity), access to services is still much greater in urban areas despite impressive expansion in rural access: more than 90 percent of the urban population and about 70–80 percent of the urban poor have access to piped water and electricity, while in rural areas, about 65 percent of the population and about 50 percent of the poor have access to potable water and electricity.

Improved cost recovery, better targeting, and efficiency-enhancing measures are necessary to improve the quality and quantity of basic social services in the face of scarce public resources. Efforts should concentrate on maintaining reasonable quality and reducing high dropout rates in basic education; maintaining the quality and improving the efficiency of resource use in basic health services; and expanding infrastructure services to regions in which poverty is especially acute.

Safety Net

Tunisian authorities have attempted to alleviate poverty through three types of safety net programs: (a) food subsidies targeted to the poor through self-selection mechanisms using quality differentiation, (b) direct transfers in kind and in cash targeted to the needy (elderly, handicapped, school children, and needy families), and (c) public works programs that provide short-term jobs for unskilled workers, in both urban and rural areas, through self-targeted mechanisms, such as setting wages below the minimum wage and locating work sites in predominantly poor areas. Overall, these programs have helped to alleviate poverty and have been an efficient vehicle for transferring income to the poor. But the targeting of these programs, particularly the direct cash transfers to needy families, could be improved. These cash transfers suffer from the difficulties that typically arise using means tests and specific eligibility criteria. Thus a clear understanding of the economic and social characteristics of the poor is needed to develop adequate household socioeconomic indicators for identifying poverty groups.

Poverty Strategy

Despite admirable progress in reducing poverty and improving Tunisian living standards, increased international competition and closer integration with Europe pose new and particularly demanding challenges for human resource development and labor force flexibility. The policies and institutions responsible for social achievements need no drastic change, but they need to continue to adapt to a changing economic environment. Although the government's poverty-reduction strategy is based on a sound economic rationale, a more efficient use of existing resources is needed. To maintain past achievements and continue to improve the living standards of the poor, the following elements are needed:

- Incentive-neutral policies to promote broadly based growth, to sustain growth in employment and in per capita income, and to ensure that the benefits of growth are distributed across all income groups.
- Income-earning opportunities, particularly in rural areas and in activities outside agriculture.
- Human capital development to ensure that the poor can acquire the education and skills they need to take advantage of job opportunities, to keep pace with economic and structural changes, and to benefit from the new skilled jobs created.
- Improved targeting of existing safety net programs for those who cannot take advantage of income-earning opportunities.

Statistical System

Although Tunisia's National Household Consumption Surveys provide high-quality profiles of consumption and expenditure patterns on a regular basis (every five years), this information has not been used regularly to monitor social programs or inform social policy. Moreover, better data are needed on sources of income and on access to social services and their effectiveness. To improve the social data and to make better-informed policy choices, Tunisia's government launched a Living Standards Measurement Survey in 1995 to upgrade the Household Consumption Survey. The results should be analyzed to further the understanding of poverty in Tunisia and to improve the focus of the poverty-alleviation strategy. To support and coordinate efforts in monitoring poverty, analyzing welfare changes, and making better-informed policy choices, the value and importance of these data need to be illustrated to the government.

Ukraine

Poverty Profile

Ukraine faced serious economic difficulties in the early 1990s: an energy price shock, evaporating military demand, and dissolving trade relationships. The initial policy responses worsened the situation. Fiscal and monetary lack of discipline led to 10,000 percent inflation in 1993. Limited price and trade liberalization and anemic privatization could not prevent output from declining precipitously, an estimated 47 percent between 1990 and 1995. Aggregate consumption fell 32 percent from 1991 to 1994. Economic policies subsequently improved, especially in the second half of 1994. By then, however, the damage to the Ukrainian economy was too great to reverse easily.

The macroeconomic collapse, together with the halting progress of economic reforms, adversely affected households in three ways. Weak labor demand resulted in a dramatic drop in the real wage, an estimated 63 percent between 1990 and 1993. Household financial savings were wiped out by hyperinflation. Social benefits declined in real terms and were badly targeted to the truly needy. Rapid growth in the informal sector has been able to cushion the impact of macroeconomic collapse on Ukrainian households only to a limited extent.

It is difficult to analyze poverty in Ukraine using official data. This study relies on studies that were carried out specifically for this poverty assessment, a household survey of income and expenditure, a labor sector study, and an anthropological study of poverty. Much more attention should be given to measuring and monitoring poverty in Ukraine. The poverty assessment recommends implementation of a poverty monitoring system.

In order to measure poverty over time and among groups, it is convenient to define a poverty line in terms of per capita household consumption. The poverty line used in this report, Krb3.675 million (about $24) per person per month in June 1995, is based on the food component of Ukraine's minimum consumption basket together with a nonfood component based on household survey data. This poverty line is a convenient analytical tool, but it is not intended as an eligibility threshold for social assistance programs. Using a poverty line of Krb3.675 million, almost 30 percent of Ukrainian households were living in poverty in June 1995. Poverty is not quite as serious in Ukraine as in Russia, but it is much more serious than in Poland. Many Ukrainian households are close to the poverty line. A proportionate 20 percent increase in per capita consumption would result in a 34 percent decline in the number of households below the poverty line.

The most important factor explaining the incidence of poverty in Ukraine is family composition. Poor households tend to have more children (under age 15) and more elderly (over age 64) than households that are not poor. Households with no adults ages 15–64 account for nearly one-quarter of all poor households, and nearly 40 percent of such households are poor.

Age is an important factor in understanding poverty. In Ukraine, beyond age 60, the frequency of poverty increases with each successive age bracket. This contrasts with most other countries for which information is available. The usual pattern is that the frequency of poverty decreases with increasing age. The key variable is age, not status as an old-age pensioner. Many old-age pensioners are not elderly (two out of five old-age pensioners are under 65 years of age), and only a subset of old-age pensioners (35 percent) are poor. Attempts to help poor people by raising all old-age pensions are likely to be both ineffective and inefficient.

As measured by the household survey, rural poverty is lower than urban poverty, probably because of easier access to land and food. However, the anthropological study reveals important qualitative differences in poverty between rural and urban areas. These qualitative differences are so important that one might conclude that rural poverty is more severe than urban poverty. There is also an important regional dimension to poverty, with the frequency of poverty highest in the east (35 percent) and lowest in the south (26 percent). The regional dimension of poverty is likely to become more important over time. This argues for federal, not local, funding of social benefits.

Explicit unemployment is not yet an important determinant of poverty in Ukraine—the main labor force variable explaining differences in household economic well-being is the real wage. Many poor households do have working members, but these workers earn wages too low to keep the number of people in the household above the poverty line. Many other poor households have no members in the workforce.

A decline in real wages is the primary labor market link between macroeconomic decline and poverty. Real wages dropped more than 60 percent be-

tween 1990 and 1993. Taxes on labor totaling 52 percent of the wage bill mean that enterprises must pay much more for labor than the workers themselves receive. This discourages employment and pushes down wages. It also discourages informal, unregistered businesses from joining the formal sector.

Unemployment, even broadly defined, is a less important link to household economic well-being than the decline in real wages. The poverty assessment estimates broadly defined unemployment in Ukraine in mid-1995 at 5.3 percent, including 3.8 percent unemployment plus 1.5 percent unpaid leave and involuntary part-time work. This is a large multiple of officially measured unemployment, which is still below 0.5 percent, but it is nevertheless low by comparison with other European countries. Official estimates of hidden unemployment exaggerate its magnitude because they are based on reports from enterprises. People who are on forced leave or involuntary part-time work cannot afford to remain idle, so they often engage in informal sector activities.

The rapid decline in the real wage, and to a lesser extent the decline in employment, resulted in a decline in wages as a fraction of household income from 71 percent in 1990 to only 49 percent in 1993. Subsequently, as other forms of household income also fell, this fraction began to increase, and it increased further in 1995 as some increase in real wages occurred. By mid-1995, wages accounted for about 60 percent of household income.

This average disguises considerable variation in the importance of wages among households. Specifically, wages as a fraction of income tend to be lowest for households at the bottom of the income distribution. This pattern means that even a large increase in real wages in isolation would leave many households in poverty. Stabilization, price and trade liberalization, and privatization policies that lead to economic growth and a resurgence in labor demand will be extremely important in alleviating poverty both directly via the real wage and indirectly via growth in nonwage income. The impact of growth must be complemented by reform of the social protection system.

Safety Net

Because of the magnitude and depth of poverty in Ukraine, and because eventual resurgence in the labor market alone will not "cure" poverty, social protection reform cannot be delayed until the economic climate improves. A medium-term vision of social protection in Ukraine would include three main elements: a means-tested income subsidy that could evolve from the present targeted housing subsidy program; social insurance with the insurance function restored, financed by beneficiaries via a wage tax; and a social justice scheme for Chernobyl victims, financed by general revenues, with increased benefits for those still suffering the most more than a decade after the tragedy.

The present situation provides a starting place toward this future vision. The means-tested housing and communal services subsidy is an improvement over the old, universal housing subsidy, yet improvements in administration and a strengthening of the means test are desirable. A strengthened, means-tested child allowance and new means-tested benefits for the elderly could help population groups whose poverty is greatest. Social service programs are well intentioned, but they are being overwhelmed by the needs created by the general economic decline, and they depend on weak local finances. The old-age pension system is a failure as social insurance because the contributions-benefits link has been lost to benefit compression, and it is a failure as social assistance because it is untargeted. Unemployment insurance has not yet demonstrated its value. Chernobyl benefits were designed to be financed by the entire Soviet Union, so Ukraine's efforts to finance them may not be sustainable. The Chernobyl Fund is financed by a 12 percent tax on labor that increases the cost of labor and pushes down wages. It is unclear whether Chernobyl benefits are achieving the goal of social justice for Chernobyl victims, since studies of beneficiaries have not yet been undertaken.

The next step is to reach consensus among the general populace, labor, business, the government, and parliament on a medium-term vision of social protection in Ukraine. After careful analysis of budgetary consequences, the means-tested child allowance should be strengthened and a means-tested social assistance benefit for the elderly should be introduced, both with federal funding. Improving the administration of the targeted housing and communal services subsidy and strengthening the means test should have high priority. Locally controlled social services are the best hope of the truly destitute. Consideration should be given to strengthening these programs and financing them federally. In the medium term, the goal for social assistance could be to convert the targeted housing and communal services subsidy into a means-tested income subsidy.

There is an urgent need for a periodic actuarial analysis of the pension system. Based on this kind of analysis, measures should be designed to increase the ratio of contributors to beneficiaries over time (for example, by gradually raising the pension age) and to decrease the ratio of the average pension to the average wage (for example, by paying reduced pensions to those who claim them before age 65). As these measures take hold, it will become possible to decompress the benefit structure and restore a strong contributions-benefits link. The Employment Service should focus on paying benefits (its insurance function) rather than on training and job creation programs that have not been cost-effective in other countries. The modernization of the health sector should take precedence over so-called "health insurance" that is not, in fact, social insurance at all. Wage tax financing of the health sector should be avoided.

Beneficiary studies are needed to make sure that Chernobyl victims are receiving the help they need. In the short term, Chernobyl benefits and programs should be appropriated annually as part of the normal budget process, and the 12 percent wage tax should be added to general revenues. Over time, as economic growth permits, wage tax financing of the Chernobyl Fund should be replaced by general revenues.

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Yemen

Poverty Profile

The Yemen poverty assessment found that about 2.6 million people, or 19 percent of the population, lived in poverty in 1992, without sufficient resources to meet their basic food and nonfood requirements. The share of the population with total expenditures insufficient to meet even their food needs—those living in absolute poverty—was 9 percent. The average upper poverty line was YR9,134 per capita, or US$203. The lower poverty line was YR6,371, or US$142 per capita. Although the poor comprised about one-fifth of the population, they consumed only 6 percent of the total private expenditures in Yemen. This distribution is about average for a low-income country. Poverty in Yemen is distributed roughly equally between rural and urban areas as a proportion of local populations. Thus, with between 70 and 80 percent of the total population, rural areas contain approximately 80 and 85 percent of the poor and absolute poor, respectively. Labor force participation rates of the poor and nonpoor are roughly similar, although both poor men and poor women (for whom participation is low for both poor and nonpoor) start to work earlier in life and finish later.

Incentive and Regulatory Framework

Misallocation and misdirection of resources between recurrent and capital expenditures and among different recurrent categories inhibit the effectiveness of public economic intervention: material expenditures are just 8 percent of public expenditures, public sector employment grew at 15 percent a year from 1990 to 1994, and public domestic investment in development activities was only about 7 percent of total government investment in 1995. Moreover, the government undertook heavy deficit spending to finance universal subsidies and rapid public sector hiring. The external borrowing, and the monetization of debt used to finance this spending, fueled annual inflation of more than 50 percent through the first half of the 1990s and were thus somewhat counterproductive in helping the poor. Finally, wheat and flour subsidies had a negative effect on the poor. Agriculture employs 58 percent of the labor force, and a disproportionate number of agricultural workers are the rural poor. Because wheat is not a major staple in rural areas, the subsidy imparts little consumer benefit to the rural poor. However, the income of agricultural workers is depressed due to artificially depressed cereals prices.

Public Expenditures

Government expenditures on health and education are not related to the level of poverty in a governorate, and need is not the criterion for distributing public resources in the social sectors. Moreover, although data by income group are lacking, the evidence available suggests a higher incidence of ill health and mortality among the poor than the nonpoor. Although education expenditures have fallen rapidly since unification and the education system is ineffective in relation to comparator countries—factors that affect all students—out-of-pocket expenses can be prohibitive for the poor, preventing school attendance in some cases. Finally, significant expenditures for subsidizing imported wheat and flour are untargeted: the nonpoor benefit more from these expenditures than the poor.

Safety Net

The universal subsidies program, which costs about 16 percent of GDP in 1994, is ineffective. The program includes subsidies for wheat and flour, electricity, petroleum products, cement, water, and wastewater. The opportunity cost of this program is enormous. Although exact calculation is difficult, a package of basic health services could be provided to the entire population for about a quarter of its cost. Moreover, while the cash cost to the government of the wheat subsidies alone is estimated at 4 percent of GDP; reexport, smuggling, discrimination against local producers, and import premiums charged to the government as insurance against late payment and other endemic problems result in leakage and overcharges amounting to more than 2 percent of GDP.

Government financial assistance to NGOs providing social services was equal to just over half of 1 percent of GDP in 1994, which was considered inadequate given the needs. Strong nongovernmental support systems providing targeted small-scale assistance to the needy include religious charity (*zakat* and *satqa*), traditional community-based assistance, and intrafamily transfers. The amount of assistance and the extent of coverage provided by these activities are difficult to estimate. There is, however, evidence both that these systems function well and that some of them may be eroding due to demographic

and socioeconomic pressures. Systematic sociological and economic research would provide a better understanding of the strengths and limitations of nongovernmental assistance.

Poverty Strategy

First, options available to the government for assisting the poor are limited by the fact that most of the poor live in rural areas, making it difficult to reach them through public assistance programs. Second, because public institutions are weak, the government must choose options that are easy to implement and involve private and nonprofit partners. The report recommends a three-prong strategy: encourage broad-based economic growth, increase social service provision, and develop the nongovernmental sector. The government should pursue three main measures: phase out the universal subsidy program, improve the effectiveness of public expenditures, and revisit the strategies in the health and education sectors.

Poverty reduction activities in the private and NGO sectors would be best facilitated by improving the regulatory framework, particularly incentive structures, within which social service agencies operate and increasing the financing for these activities.

Statistical System

The statistical system in general does not adequately supply decisionmakers and policymakers with the information needed to formulate national development strategies. Data sets in the education and health and social protection sectors have significant gaps. The Household Budget Survey on which the analysis in the report is based contains information from 1992 on 60,550 individuals and 8,405 households. The number of poor in the sample is 11,058. The survey is not representative: 72 percent of the households that it contains are urban, whereas the urban population makes up just 20 percent of the population.

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Notes

[1] The three dropped were the poverty assessment for Burkina Faso, Burundi, and Swaziland, for which poverty notes, rather than poverty assessments, are being done (that for Burkina Faso has been completed). Poverty notes do not provide complete coverage of the topics specified in the World Bank's Operational Directive on Poverty; country teams may choose to prepare poverty notes because of political constraints, data or resource limitations, or other reasons. Although poverty notes do not contain the same level of comprehensive analysis as a full poverty assessment, they serve as a springboard for action and further analysis.

[2] The incidence of poverty is measured by the headcount index, which is the proportion of the population whose measured standard of living (consumption) is below the poverty line. The depth of poverty is measured by the poverty gap index, which is the difference between the poverty line and the mean income of the poor, expressed as a ratio of the poverty line. The severity of poverty is measured by the weighted poverty gap index, which takes into account the distribution of living standards among the poor. See also box A-1.

[3] Three fiscal 1996 poverty assessments (Nigeria, Philippines, and Trinidad and Tobago) and one fiscal 1997 assessment (Guinea) relied on the findings and recommendations of recently completed full public expenditure reviews.

[4] The incidence of poverty varies considerably from town to town. Using a relative poverty line of half of mean expenditure yields poverty rates of around 12 percent of the population of "old" Tirana, 20 percent in periurban Tirana, 25 percent in Lezha and Elbasan, and only 9 percent in Fier.

[5] The Ministry of Labor and Social Policy and the World Bank are scheduled to start a research program to study the effectiveness of social assistance by using survey data and appropriate statistical techniques.

[6] The ADF is coming under pressure to provide larger loans, increasing the probability that the microcredit program will be squeezed.

[7] Wages refer to the state sector (budgetary and nonbudgetary) only. No official data are available on wages in the private sector.

Annex B Poverty Assessments, Completed and Scheduled, Fiscal 1989–2000

	Completed		*Scheduled*			
Region	*1989-96*	*1997*	*1998*	*1999*	*2000*	*Total*
East Asia and the Pacific	11	1	3	0	0	15
Europe and Central Asia	8	3	6	6	0	23
Latin America and the Caribbean	23	1	3	2	0	29
Middle East and North Africa	5	0	2	0	0	7
South Asia	6	1	2	0	0	9
Sub-Saharan Africa	31	4	4	2	1	42
Total	84[a]	10[b]	20[c]	10[d]	1[e]	125[f]

a. Includes 75 first-round poverty assessments and 9 updates.
b. Includes 8 first-round poverty assessments and 2 updates.
c. Includes 15 first-round poverty assessments and 5 updates.
d. Includes 7 first-round poverty assessments and 3 updates.
e. Includes only 1 update.
f. Includes 105 first-round poverty assessments and 20 updates.

Annex C Poverty Assessments Completed, Fiscal 1989-97

Country	Report title	Report number
EAST ASIA AND THE PACIFIC		
China	Strategies for Reducing Poverty in the 1990s	10409-CHA
Fiji	Restoring Growth in a Changing Global Environment	13862-FIJ
Indonesia	Poverty Assessment and Strategy Report	8034-IND
Indonesia (update)	Public Expenditures, Prices, and the Poor	11293-IND
Lao PDR	Social Development Assessment and Strategy	13992-LA
Malaysia	Growth, Poverty Alleviation, and Improved Income Distribution in Malaysia	8667-MA
Mongolia	Poverty in a Transition Economy	15723-MOG
Philippines	The Philippines: The Challenge of Poverty	7144-PH
Philippines (update)	An Opening for Sustained Growth	11061-PH
Philippines (update)	A Strategy to Fight Poverty	14933-PH
Thailand	Growth, Poverty, and Income Distribution: An Economic Report	15689-TH
Vietnam	Poverty Assessment and Strategy	13442-VN
EUROPE AND CENTRAL ASIA		
Albania	Growing Out of Poverty	15698-ALB
Armenia	Confronting Poverty Issues	15693-AM
Azerbaijan	Poverty Assessment	15601-AZ
Belarus	An Assessment of Poverty and Prospects for Improved Living Standards	15380-BY
Estonia	Living Standards during the Transition	15647-EE
Hungary	Poverty and Social Transfers	14658-HU
Kyrgyz Republic	Poverty Assessment and Strategy	14380-KG
Poland	Poverty in Poland	13051-POL
Romania	Poverty and Social Policy	16462-RO
Russia	Poverty in Russia: An Assessment	14110-RU
Ukraine	Poverty in Ukraine	15602-UA
LATIN AMERICA AND THE CARIBBEAN		
Argentina	Argentina's Poor: A Profile	13318-AR
Bolivia	Poverty Report	8643-BO
Bolivia (update)	Poverty Equity and Income: Selected Policies for Expanding Earning Opportunites for the Poor (2 volumes)	15272-BO
Brazil	Brazil: A Poverty Assessment (2 volumes)	14323-BR
Chile	Social Development Progress in Chile: Achievement and Challenges	8550-CH
Colombia	Poverty Assessment Report (2 volumes)	12673-CO
Costa Rica	Public Sector Social Spending	8519-CR
Costa Rica (update)	Identifying the Social Needs of the Poor: An Update	15449-CR
Dominican Republic	Growth with Equity: An Agenda for Reform	13619-DO

Country	Report title	Report number
Ecuador	A Social Sector Strategy for the Nineties	8935-EC
Ecuador (update)	Poverty Report	14533-EC
El Salvador	The Challenge of Poverty Alleviation	12315-ES
Guatemala	An Assessment of Poverty	12313-GU
Guyana	Strategies for Reducing Poverty	12861-GUA
Honduras	Country Economic Memorandum/Poverty Assessment	13317-HO
Jamaica	A Strategy for Growth and Poverty Reduction	12702-JM
Mexico	Mexico in Transition: Towards a New Role for the Public Sector	8770-ME
Nicaragua	Poverty Assessment	14038-NI
Paraguay	Public Expenditure Review—the Social Sectors	10193-PA
Paraguay (update)	Poverty and the Social Sectors in Paraguay: A Poverty Assessment	12293-PA
Peru	Poverty Assessment and Social Sector Policies and Programs for the Poor	11191-PE
Trinidad and Tobago	Poverty and Unemployment in an Oil-Based Economy	14382-TR
Uruguay	Poverty Assessment: Public Social Expenditures and Their Impact on the Income Distribution	9663-UR
Venezuela	From Generalized Subsidies to Targeted Programs	9114-VE
MIDDLE EAST AND NORTH AFRICA		
Egypt	Alleviating Poverty during Structural Adjustment	9838-EGT
Jordan	Poverty Assessment	12675-JO
Morocco	Poverty, Adjustment, and Growth	11918-MOR
Tunisia	Poverty Alleviation: Preserving Progress while Preparing for the Future (2 volumes)	13993-TUN
Yemen, Republic of	Poverty Assessment	15158-YEM
SOUTH ASIA		
Bangladesh	Bangladesh Poverty and Public Expenditures: An Evaluation of the Impact of Selected Government Programs	7946-BD
India	Poverty, Employment, and Social Services	7617-IN
India (update)	Achievements and Challenges in Reducing Poverty	16483-IN
Nepal	Relieving Poverty in a Resource-Scarce Economy	8635-NEP
Pakistan	A Profile of Poverty	8848-PAK
Pakistan (update)	Poverty Assessment	14397-PAK
Sri Lanka	Poverty Assessment	13431-CE
SUB-SAHARAN AFRICA		
Benin	Toward a Poverty Alleviation Strategy for Benin	12706-BEN
Cameroon	Diversity, Growth, and Poverty Reduction	13167-CM
Cape Verde	Poverty in Cape Verde: A Summary Assessment and a Strategy for its Alleviation	13126-CV
Comoros	Poverty and Growth in a Traditional Small Island Economy	13401-COM
Congo, Rep. of	Poverty Assessment	16043-COB
Côte d'Ivoire	Poverty in Côte d'Ivoire: A Framework for Action	15640-IVC
Eritrea	Poverty Assessment	15595-ER
Ethiopia	Toward Poverty Alleviation and a Social Action Program	11306-ET
Gabon	Poverty in a Rent-Based Economy	16333-GA
The Gambia	An Assessment of Poverty	11941-GM
Ghana	2000 and Beyond: Setting the Stage for Accelerated Growth and Poverty Reduction	11486-GH
Ghana (update)	Ghana: Poverty Past, Present, and Future	14504-GH
Guinea	A Socioeconomic Assessment of Well-Being and Poverty	16465-GUI

Country	Report title	Report number
Guinea-Bissau	Poverty Assessment and Social Sector Strategy Review	13155-GUB
Kenya	Poverty Assessment	13152-KE
Lesotho	Poverty Assessment	13171-LSO
Madagascar	Poverty Assessment	14044-MAG
Malawi	Growth through Poverty Reduction	8140-MAI
Malawi (update)	Human Resources and Poverty: Profile and Priorities for Action	15437-MAI
Mali	Assessment of Living Conditions	11842-MLI
Mauritania	Poverty Assessment	12182-MAU
Mauritius	CEM: Sharpening the Competitive Edge	13215-MAS
Mozambique	Poverty Reduction Framework Paper*	None
Namibia	Poverty Alleviation with Sustainable Growth	9510-NAM
Niger	A Resilient People in a Harsh Environment: Niger Poverty Assessment	15344-NIR
Nigeria	Poverty in the Midst of Plenty: The Challenge of Growth with Inclusion	14733-UNI
Rwanda	Poverty Reduction and Sustainable Growth	12465-RW
Senegal	An Assessment of Living Conditions (2 volumes)	12517-SE
Seychelles	Poverty in Paradise	12423-SEY
Sierra Leone	Policies for Sustained Economic Growth and Poverty Alleviation	11371-SL
Tanzania	The Challenge of Reforms: Growth, Incomes, and Welfare	14982-TA
Togo	Overcoming the Crisis, Overcoming Poverty: A World Bank Poverty Assessment	15526-TO
Uganda	Growing Out of Poverty	11380-UG
Zambia	Poverty Assessment	12985-ZA
Zimbabwe	Achieving Shared Growth: Country Economic Memorandum (2 volumes)	13540-ZIM

* Document was prepared for consultative group meeting.

Annex D Program of Targeted Interventions, Fiscal 1996 and 1997

Objectives of Projects in the Program of Targeted Interventions (PTI), Fiscal 1996 and 1997

In fiscal 1992, the Bank developed and began to track the Program of Targeted Interventions (PTI) to provide a measure of targeted poverty lending. (See note in table D-1 for the definition of a PTI project.)

Targeted projects are intended to reach specific groups, including those in less developed or low-income rural and urban areas; those lacking access to land; migrants, refugees, and other transient population groups; unskilled workers; the disabled and other vulnerable groups; certain ethnic minorities; and groups with certain demographic characteristics, such as gender, age (children under 5), or health risks (diseases correlated with poverty, such as schistosomiasis, stunting, or cholera).

During fiscal 1997, approximately $4.1 billion, or about 29 percent of World Bank investment lending, was channeled for direct poverty targeted projects, compared with US$5.4 billion, or about 32 percent, in fiscal 1995 and 1996. For IDA countries, PTI lending was 53 percent of fiscal 1997 investment lending, which represents a decline from 63 percent in fiscal 1996 but was about the same level as fiscal 1995. The unusually high level and share of IDA PTI lending in fiscal 1996 was due to a greater number of large PTI loans (in amounts over $350 million) approved that year. Of the 203 Bank-approved investment projects in fiscal 1997, 77 were PTI operations. Table D-1 presents the Bank's funding for PTI projects over the last six years. Between fiscal 1992 and fiscal 1996, the amount and share of IBRD and IDA lending to projects in the PTI have increased significantly. For fiscal 1997, however, there has been a slight decline in these figures, as compared with previous years.

The majority of the PTI projects in both fiscal 1996 and fiscal 1997 were broadly targeted, as has been the case in the previous fiscal years. Broad target-

Table D-1: Program of targeted interventions, fiscal 1992–97

Lending	*1992*[a]	*1993*	*1994*	*1995*	*1996*	*1997*
World Bank (IBRD and IDA) PTI lending						
Millions of dollars	3,837	4,674	4,441	5,437	5,408	4,090
Percentage of investment lending[b]	24	27	25	32	32	29
Percentage of all Bank lending	18	20	21	24	25	21
Total number of projects in the PTI	57	72	63	75	79	77
Total number of projects	186	214	197	208	223	203
IDA PTI lending						
Millions of dollars	1,812	2,137	1,853	2,423	3,246	1,874
Percentage of IDA investment lending[b]	43	41	43	54	63	53
Percentage of all IDA lending	28	32	28	43	47	41
Total number of IDA-funded projects in the PTI	35	44	35	48	51	37

Note: A project is included in the PTI if it has a specific mechanism for targeting the poor and/or if the proportion of poor people among its beneficiaries is significantly larger than the proportion of the poor in the total population.

a. Fiscal 1992 figures differ from those in *Implementing the World Bank's Strategy to Reduce Poverty* (World Bank 1993) because they include seven projects that were added to the PTI after the earlier report went to press.

b. Investment lending includes all lending except for adjustment, debt and debt-service reduction operations, and emergency recovery loans, which are distinct from regular investment operations (see annex F).

ing generally expands the provision of services, such as basic education and primary health care, to provide access for as many people as possible. However, it is the poor who benefit most from the extension of basic services, since the better-off generally already have access to these services. A smaller number of PTI projects were narrowly targeted for both years. Narrow targeting is used in countries where poverty is relatively isolated and geographically concentrated, where the incidence and location of poverty are well understood, and where the government has the capacity to implement targeted programs. A number of PTI operations that combined broad and narrow targeting were mostly concerned with population, health, and nutrition (PHN); agriculture; education; and the social sector.

The following are the main issues addressed by projects in the Program of Targeted Interventions in fiscal 1996 and 1997:

Raising productivity

Seventeen projects in fiscal 1996 and 26 projects in fiscal 1997 aimed to increase agricultural productivity. The focus of these projects was on increasing access to rural finance; building and rehabilitating irrigation and rural roads; supporting on- and off-farm income generation; promoting agroprocessing and farm product marketing; providing agricultural support services; managing the environment, natural resources, and resettlement; and strengthening agricultural institutions.

The projects funded in fiscal 1996 and 1997 illustrate the different methods used to increase productivity. The Vietnam Rural Finance Project (fiscal 1996, IDA) will establish a general rural credit to help finance household and enterprise investments in agricultural and other viable rural operations, and a poverty-targeted rural credit to open market access to groups previously excluded by reason of remote location, inadequate collateral, and limited resources of formal financial institutions. The Bangladesh Coastal Embankment Rehabilitation Project (fiscal 1996, IDA) will improve agricultural production by preventing saline inundation during normal weather and improve cropping patterns due to reduced cyclone risks. The Chile Secano Rural Poverty Alleviation and Natural Resource Management Project (fiscal 1996, IBRD) will support a transfer of technology adapted to the needs of small farmers and regularize the property rights of poor people with land titling problems. The Bosnia and Herzegovina Local Initiatives Project (fiscal 1997, IDA) will address the urgent need to assist low-income and war-affected groups through small loans for income-generating activities and microenterprise development to help the transition from dependence to active employment. Among other things, the Lebanon Agriculture Infrastructure Development Project (fiscal 1997, IBRD) will facilitate the marketing of agricultural produce through an improved rural road network.

Developing human capital

Forty-four PTI operations in fiscal 1996 and 31 in fiscal 1997 will develop human capital: increasing access to or improving the quality of primary health care, nutrition, and basic education. The education projects will improve female literacy, develop skills in the informal sector, support education of primary and secondary school teachers, provide school materials, and construct educational facilities. Health and population projects will provide packages of basic health and family planning services, and support disease prevention and immunization programs.

A Second Basic Health Project in Mexico (fiscal 1996, IBRD) will implement a cost-effective package of basic health care services including preventive health and essential clinical services. A Population Project in Egypt (fiscal 1996, IDA) will finance initiatives to increase awareness of population issues, to strengthen motivation for couples to plan their families, to facilitate access to and use of reproductive health services, and to educate and motivate people in such related areas as child nutrition, safe motherhood, male awareness, and delayed age of marriage. It will also include projects to extend and improve the quality of social change agents. In India, malaria disproportionately affects the poorest members of society. The Malaria Control Project (fiscal 1997, IDA) will benefit more than 200 million people living in rural areas where malaria is endemic by providing them with effective malaria control interventions.

In the education sector, the El Salvador Basic Education Modernization Project (fiscal 1996, IBRD) will support the expansion of the Community-Managed Schools Program to regions that do not currently have preschools or basic education services. The Senegal Pilot Female Literacy Project (fiscal 1996, IDA) is expected to increase girls' enrollment by 23 percent and result in a 10 to 14 percent decrease in infant mortality and a 3 to 5 percent decrease in the number of births. An Early Childhood Development

Project in Kenya (fiscal 1997, IDA) seeks to improve the cognitive and psychosocial development of 1.5 million children aged zero to six living in poor communities by supporting a program for improved teacher performance combined with community capacity building and institutional strengthening of the Ministry of Education in the area of early childhood development. The project will also pilot intervention packages aimed at (a) increasing participation in early childhood development programs by poor children and communities through financial support, including grants; (b) improving the health and nutrition status of preschool children, including those under three years of age; and (c) facilitating the transition from preschool to primary school.

Improving living conditions

In the urban development and the water supply and sanitation sectors, six projects in fiscal 1996 and 11 in fiscal 1997 will improve living conditions of poor people by increasing access to social services and infrastructure. These projects will construct and rehabilitate water, sewerage, flood control, and drainage systems as well as community irrigation schemes.

The Ghana Urban Environmental Sanitation Project (fiscal 1996, IDA), through its community upgrading component, will improve drainage, sanitation, and solid waste services for about 265,000 residents of predominantly low-income urban communities with the active participation of the communities in implementation. The Pakistan North-West Frontier Province Community Infrastructure and NHA Strengthening Project (fiscal 1996, IDA) will upgrade basic infrastructure and promote community development, the latter through community mobilization and capacity building, health and hygiene awareness campaigns, and pilot schemes for women's group formation and women's education and training. The Turkmenistan Water Supply and Sanitation Project (fiscal 1997, IBRD) will provide 190,000 inhabitants of the Dashkhovuz *velayet* (province) with a safe and reliable water supply, latrines in collective farms and market areas, and a health and hygiene education program.

Social protection

Nineteen operations in fiscal 1996 and 12 in fiscal 1997 support measures to protect the vulnerable through social funds or some type of safety net measure (including retraining schemes, nutrition programs, unemployment benefits, and the reform of the social protection system). Social action funds generally support community-level microprojects aimed at increasing access to basic education and health, safe water, irrigation facilities, and rural roads. Safety net measures are typically short-term measures designed to protect vulnerable groups during periods of economic adjustment or to provide assistance to those unable to work. For example, the Eritrea Community Development Fund Project (fiscal 1996, IDA) will finance the rehabilitation and development of basic social and economic infrastructure critical to the improvement of the economic and social welfare of the population, especially in the rural and war-devastated areas of Eritrea, and it will improve the income-generating capacity of poor people and households. The Second Social Development and Compensation Fund Project in Peru (fiscal 1997, IBRD) will support community-based subprojects to stimulate economic activity in low-income areas. Investments in primary education, health posts, and water and sewerage systems will help mitigate the social costs of adjustment. The Haiti Employment Generation Project (fiscal 1996, IDA) will provide short-term employment to people in extreme poverty and will strengthen the capacity of national and local government, NGOs, and local community organizations to manage employment-intensive small-scale development projects in the future. In Algeria, the Social Safety Net Support Project (fiscal 1996, IBRD) will help establish labor-intensive public works programs, improve social assistance programs, test a pilot program for community development, and help in the preparation of a social fund.

Other PTI areas

The PTI also includes projects in areas such as transport, the environment, finance, and public sector management. The Lesotho Road Rehabilitation and Maintenance Project (fiscal 1996, IDA) will increase access to markets and basic services, at lower costs, particularly for people in poorer and outlying districts. The project will generate 2 million person-workdays of work over five years through labor-based public works. The Colombia Bogota Urban Transport Project (fiscal 1996, IBRD) will benefit 630,000 low-income residents by connecting poor areas to employment centers. It will also generate employment for poor unskilled workers. The landless and the land-poor in Haiti will benefit from the Forest and Parks Protection Technical Assistance

Project (fiscal 1997, IDA), which will initiate activities to protect three valuable forest ecosystems, contain the degradation of forest resources, and support activities to increase on-farm productivity and off-farm employment options for the marginalized poor inhabiting these areas.

Table D-2 shows the share of PTI lending to total investment lending by sectors over the last six years. Because year-to-year fluctuations within and between sectors are natural, and because the PTI has been monitored for only six years, three-year averages have been calculated to see how much lending for different sectors is targeted directly to the poor.

As indicated in table D-2, a large majority of both IDA and IBRD projects in the education, PHN, and social sector belong in the PTI. Over the period fiscal 1992–97, the average share of IDA PTI lending in total investment lending for each sector has increased significantly in agriculture, education, the social sector, and urban development. It has increased moderately in the PHN sector, and has fluctuated in the water supply and sanitation sector.

For total World Bank lending, the average share of PTI lending in the education, urban development, and water supply and sanitation sectors has dropped between fiscal 1992–94 and fiscal 1995–97. The share of PTI lending in the PHN and social sector remained steady, and PTI lending in the agriculture sector has increased sharply (see table D-2).

Although projects in the PTI obviously seek to benefit the poor, this does not mean that non-PTI investment projects do not also contain provisions that help to reduce poverty. For example, the Guinea National Agricultural Services Project (fiscal 1996, IDA), though not poverty-targeted, will give farmers and herders, including rural women, throughout the country access to quality agricultural services and thereby contribute to an increase in the incomes of the poor. Although the Sri Lanka Health Services Project (fiscal 1997, IDA) will address major public health problems for the entire population, the poor will benefit especially from programs addressing malaria, sexually transmitted diseases/AIDS, family planning, and malnutrition.

Table D-3 shows the regional variation in the Bank's funding for PTI projects. Tables D-4 and D-5 briefly describe why fiscal 1996 and 1997 projects were included in the PTI.

Table D-2: Program of targeted interventions (PTI) by sector, fiscal 1992–97

Sector	*1992–94*	*1993–95*	*1994–96*	*1995–97*
IDA PTI lending as a percentage of IDA investment lending[a]				
Agriculture	46	46	56	64
Education	75	84	92	89
Population, health, and nutrition (PHN)	86	87	93	93
Social	79	96	96	98
Urban development	29	25	34	47
Water supply and sanitation	57	48	59	45
PTI lending as a percentage of total investment lending[a] (IDA and IBRD)				
Agriculture	28	32	40	47
Education	71	67	63	56
Population, Health, and nutrition (PHN)	79	83	75	78
Social	88	99	88	89
Urban development	37	35	25	29
Water supply and sanitation	46	39	31	24

Note: Figures differ from those in previous tables because of recent sector reclassification of operations.
[a] Investment lending includes all lending except for adjustment, debt and debt-service reduction operations, and emergency recovery loans, which are different from regular investment operations in objective and format.

Table D-3: PTI lending by region, fiscal 1996 and 1997

Lending	*East Asia and the Pacific*	*Europe and Central Asia*	*Latin America and the Caribbean*	*Middle East and North Africa*	*South Asia*	*Sub-Saharan Africa*	*Total*
Fiscal 1996							
Total PTI lending							
Millions of dollars	962.1	479.8	1,421.4	362.2	1,453.5	729.1	5,408.1
Percentage of investment lending	18	18	42	46	50	46	32
Percentage of Bank lending	18	11	32	23	50	27	25
Total number of PTI projects	13	12	19	7	11	17	79
IDA PTI lending							
Millions of dollars	673.2	83.0	145.0	162.2	1,453.5	729.1	3,246.0
Percentage of all PTI lending	70	17	10	45	100	100	60
Percentage of IDA investment lending	62	35	60	68	82	46	63
Percentage of all IDA lending	58	17	37	51	82	27	47
Total number of IDA-funded projects in the PTI	8	7	5	3	11	17	51
Fiscal 1997							
Total PTI lending							
Millions of dollars	1,194.4	127.3	1,299.9	176.5	897.0	394.9	4,090.0
Percentage of investment lending	25	7	37	26	45	40	29
Percentage of Bank lending	25	3	28	19	45	23	21
Total number of PTI projects	14	10	26	4	8	15	77
IDA PTI lending							
Millions of dollars	417.4	48.7	85.5	30.0	897.0	394.9	1,873.5
Percentage of all PTI lending	35	38	7	17	100	100	46
Percentage of IDA investment lending	53	26	88	26	65	42	53
Percentage of all IDA lending	53	10	68	21	65	23	41
Total number of IDA-funded projects in the PTI	6	4	3	1	8	15	37

Table D-4: Program of targeted interventions, fiscal 1996

Country and project	*Reason(s) for inclusion*
East Asia and the Pacific	
China	
Third Basic Education Project (IDA)	About 5 million of the poorest school children in some of the economically most disadvantaged counties of China's poorer provinces will benefit from a project designed to support the attainment of universal primary education and expansion of coverage of lower secondary education. [b]
Disease Prevention Project (IDA)	About 6 million infants born each year in 10 of the country's poorest provinces will benefit by being immunized against mortality and morbidity caused by measles, polio, pertussis, diphtheria, tetanus, and tuberculosis. [b]
Gansu Hexi Corridor Project (IBRD, IDA)	Incomes and living standards of 200,000 people now living in absolute poverty will be raised through voluntary emigration and settlement on newly developed irrigated land in Gansu Province. [b]
Shaanxi Poverty Alleviation Project (IDA)	The incomes and living standards of some 3 million people in two poor areas of Shaanxi Province will be raised through terracing and irrigation improvements, improvements to rural roads, expansion of livestock and horticultural production, and support for income-producing enterprises and activities for poor and disadvantaged women. [b]
Indonesia	
Kerinci Seblat Integrated Conservation and Development Project (IBRD)	The 1.3 million-hectare Kerinci Seblat National Park in Sumatra will be protected through the preparation of a management and zoning plan, and some 1.5 million people living in the park's buffer zone, including tribal communities and other disadvantaged groups, will benefit from income-generating benefits and improved soil groups and water quality. [a]
East Java and East Nusa Tenggara Junior Secondary Education Project (IBRD)	Geographical and financial obstacles barring poorer children from attending junior secondary education (JSE) schools will be offset through a project that will increase access to JSE by adding classrooms to existing schools and building new schools in poor and remote areas. [a,b]
Nusa Tenggara Agricultural Area Development Project (IBRD)	Some 75,000 rural households living in two of the country's poorest provinces will benefit directly from a project that seeks to raise smallholder incomes through agriculture-based area development, strengthen local-level institutions, and foster broadly based participation at the grassroots level. [b]
Sulawesi Agricultural Area Development Project (IBRD)	Some 90,000 households are to benefit directly from a project designed to assist the government in reducing the incidence of poverty in Central and Southeast Sulawesi Provinces through agriculture-based area development, a strengthening of the capacity of local agricultural support services, and support for farming systems and fisheries research. [b]
Mongolia	
Poverty Alleviation for Vulnerable Groups Project (IDA)	The social costs of adjustment will be mitigated through a project that seeks to create gainful employment and income for the poor and absolute poor, raise enrollment in basic education, reduce mortality and morbidity rates, and provide assistance to the handicapped, mentally retarded, and disabled. [a,b]
Philippines	
Manila Second Sewerage Project (IBRD)	Finance will be provided for the rehabilitation of Metro Manila's separate sewerage network and of the Ayala treatment plant, as well as implementation of the first phase of the septage-management plan. [b]
Vietnam	
National Health Support Project (IDA)	The health of the rural population in the poorer areas of the country will be improved through provision of good, reliable primary health care, a reduction of mortality and morbidity due to diseases that disproportionately affect the poor, and a program of capacity building. [b]

Country and project	*Reason(s) for inclusion*
Population and Family Health Project (IDA)	Family health and family-planning services at the grassroots level will be improved through public sector programs, thereby contributing to poverty alleviation. In addition, access to services for disadvantaged and isolated ethnic minorities will be improved. [a,b]
Rural Finance Project (IDA)	Efforts to improve living conditions in rural areas will be supported by a project that will provide finance for investment in rural areas and increase the access of the rural poor to financial services. Ethnic minority groups living in remote upland and mountainous areas are among the project's beneficiaries. [a,b]
Europe and Central Asia	
Albania	
Agro-Processing Development Project (IDA)	The agroprocessing sector will be developed, and the marketing of farm products will be improved, thereby increasing the income of poorer farmers and the availability of food products to urban consumers. [b]
Urban Works and Microenterprise Pilot Project (IDA)	A five-year program to boost employment (by more than 5,000 man-months) and small-scale economic activity in urban areas will be developed. [b]
Armenia	
Social Investment Fund Project (IDA)	The Armenian Social Investment Fund, which finances the rehabilitation of basic social and economic infrastructure on a grant basis, will be supported, thus generating substantial benefits for the poor through the implementation of hundreds of microprojects. [b]
Bulgaria	
Health Sector Restructuring Project (IBRD)	Restructuring of the health sector will be supported, and the population at large—vulnerable groups, in particular—will be protected by ensuring continued provision of essential health services during the transition period and beyond. [b]
Georgia	
Health Project (IDA)	The government's health-sector reform program, which increases total spending on health, ensures coverage of essential health services to the entire population, improves the quality of health care services, and increases the efficiency of the system, will be supported. [b]
Kyrgyz Republic	
Health Sector Reform Project (IDA)	The ability of the health system to deliver efficient and cost-effective primary health services will be improved, thereby significantly enhancing the health of the population, especially of women and children, through improvements in the areas of women's reproductive health, acute respiratory infections, diarrheal diseases, and tuberculosis. [b]
Sheep Development Project (IDA)	The sheep industry will be transformed into an efficient and sustainable market-based production system, thereby increasing the incomes of private sheep producers, who are among the poorest groups in the country. [b]
Lithuania	
Private Agriculture Development Project (IBRD)	The government will be assisted in developing a viable, private agriculture sector and in fostering economic growth in rural areas. In addition, alternative income opportunities will be identified for those affected by a dramatic decline in rural employment, women in particular, and help will be given them in starting their own businesses through increased access to credit. [b]
Macedonia, FYR	
Health Sector Transition Project (IDA)	The health of the population will be enhanced through investments in strengthening primary health care—especially in rural areas, where the poor disproportionately live—and in disease prevention. [b]

Country and project	*Reason(s) for inclusion*
Russia	
Coal Sector Restructuring Implementation Assistance Project (IBRD)	Efforts to provide support for the implementation of the coal sector-restructuring program, including assistance in addressing the inadequacies of the existing social safety net, will be supported. [b]
Enterprise Housing Divestiture Project (IBRD)	The divestiture of enterprise housing will be accelerated and made sustainable through housing privatization, cost recovery of housing maintenance and utility fees from tenants, a system of targeted housing allowances to protect vulnerable groups in the context of increased cost recovery, and an increase in private sector participation in the provision of services in the housing sector. [b]
Ukraine	
Coal Pilot Project (IBRD)	The social and environmental consequences that arise from the government's decision to close nonviable mines, as part of the restructuring program for the sector, will be mitigated. [b]
Latin America and the Caribbean	
Argentina	
Forestry Development Project (IBRD)	Efficient and sustainable growth of forest plantation and timber-processing institutions will be supported; in addition, some 3,000 poor rural families will benefit from a program that targets, through technical assistance and grants, groups of small farmers for whom agroforestry can play a central role in improving farm practices. [a,b]
Provincial Health Sector Development Project (IBRD)	The government's objective of rationalizing health-sector spending by strengthening policymaking and improving service-delivery capacity will be supported, thereby increasing the efficiency and quality of services of public hospitals, which are primarily used by the poor. [b]
Social Protection Project (IBRD)	Health and nutrition services for millions of people now living in poverty or facing unemployment will be preserved, while through a small social fund, ways to provide more basic social services and stimulate the economic production of poor households will be tested. [b]
Bolivia	
Rural Communities Development Project (IBRD)	Rural poverty should be reduced and the incomes of the rural poor increased through a project that will execute rural investments identified and formulated following a participatory planning process. [b]
Rural Water and Sanitation Project (IBRD)	Some 800,000 rural dwellers, mostly indigenous poor, will enjoy enhanced productivity through a project that will improve health conditions and reduce the time spent collecting water by means of a water and sanitation infrastructure program. [b]
Brazil	
Parana Rural Poverty Alleviation and Natural Resources Management Project (IBRD)	More than 255,000 subsistence-farmer and smallholder families, as well as migrant agricultural laborers, will benefit from a project in Parana State that will finance small-scale investment activities; social infrastructure; and on- and off-farm small-scale income-generation activities, as proposed by beneficiaries. [a,b]
Chile	
Secano Rural Poverty Alleviation and Natural Resource Management Project (IBRD)	Some 2,400 small-scale-farm families will benefit from a program of off-farm poverty-reduction investments and another that will introduce the benefits of irrigation to them, improving grain-fed cultivation practices, as well as pasture and livestock management. [b]
Colombia	
Santafe I Water Supply and Sewerage Rehabilitation Project (IBRD)	More than a million urban poor living in marginal neighborhoods of Bogota will benefit from a project that will finance investments in water, sewerage, and flood control/drainage systems and provide technical assistance for institutional strengthening. [b]

Country and project	*Reason(s) for inclusion*
Bogota Urban Transport Project (IBRD)	About 630,000 low-income residents of Bogota will benefit from a project that will help facilitate public transport access to low-income settlements. In addition, more efficient use will be made of the city's street system by improving vehicle flow in a major transport corridor. [a,b]
Dominican Republic Second Basic Education Development Project (IBRD)	The government's development and investment program for basic education, designed to improve its quality and increase enrollment and completion rates—with priority directed to children from low-income families—will be supported. [b]
El Salvador Basic Education Modernization Project (IBRD)	Some 32,000 preschool children and 64,000 children in grades 1 through 6 living in 135 towns most in need of social services will benefit from a project designed to improve access to, and the quality of, the education system—with emphasis on preschool and basic education. [b]
Land Administration Project (IBRD)	Land registration for the country's estimated 1.6 million parcels of rural and urban land will be regularized, thereby enhancing land security—and value—and contributing to better land use and enhanced collateral. [b]
Haiti Employment Generation Project (IDA)	Short-term employment will be provided to people in extreme poverty in support of the government's program to reduce poverty. [b]
Honduras Third Social Investment Fund Project (IDA)	A Third Social Investment Project seeks to help reduce poverty through improved access to basic infrastructure and social services in poor areas and for poor communities. [b]
Mexico Second Basic Health Project (IBRD)	Significant improvements in the health of about 15.5 million uninsured people in the 11 poorest states will be engendered through the implementation of a cost-effective basic health-care package. [b]
Nicaragua Second Social Investment Fund Project (IDA)	Poverty—especially among women—will be reduced through the provision of economic and social infrastructure and improved social services in poor areas. [b]
Panama Basic Education Project (IBRD)	The quality, efficiency, and equity of the Panamanian system of basic education will be improved through a project that focuses benefits on the poorest of the country's townships containing 41 percent of the school population in grades 1 through 9. [b]
Peru Rural Road Rehabilitation and Maintenance Project (IBRD)	Investments—targeted to the poorest rural communities—in the maintenance and rehabilitation of rural roads, as well as secondary and primary roads connecting to the primary road network, will help reduce poverty and raise living standards of rural communities. [b]
Trinidad and Tobago Basic Education Project (IBRD)	The cognitive and social development of preschool children, mainly from low-income families, will be enhanced; the quality of teaching and academic achievement in primary education will be increased; and the physical infrastructure of facilities in poor areas will be upgraded. [b]

Country and project	*Reason(s) for inclusion*
Middle East and North Africa	
Algeria Social Safety Net Support Project (IBRD)	Twenty thousand man-years of temporary employment will be generated through creation of jobs for the underemployed, the country's social safety net system will be strengthened, and social development programs based on increased community participation will be tested. [b]
Egypt, Arab Rep. Population Project (IDA)	The conditions and status of women and children in areas where fertility remains high—mainly in rural upper Egypt—will improve through the stimulation of demand for smaller families and for family-planning services. [b]
Second Social Fund Project (IDA)	Some 200,000 permanent jobs are expected to be created through support for small enterprises and labor-intensive works. In addition, community infrastructure and services, in partnership with NGOs and local groups, will be supported. [b]
Morocco Basic Education Project (IBRD)	The construction, rehabilitation, and equipping of schools in targeted rural areas of the country's 13 most deprived provinces is expected to allow the school system to accommodate about 65,000 new pupils each year by the end of the project and raise primary enrollment rates to 85 percent. [a,b]
Basic Health Project (IBRD)	Improved primary health care is being targeted to the needy and is expected to benefit some 27 percent of the population, including 1.05 million women of childbearing age and 1.4 million children under age 5. [a,b]
Coordination and Monitoring of Social Programs and Labor Market Promotion Project (IBRD)	About 30,000 man-years of work in basic infrastructure improvements will be created for underemployed persons in deprived rural areas of the country's 13 poorest provinces. [a,b]
Yemen Public Works Project (IDA)	Between 75,000 and 96,000 man-months of new employment will be created through small-scale civil works investments, with benefits accruing mainly to the poor. [b]
South Asia	
Bangladesh Coastal Embankment Rehabilitation Project (IDA)	Some 1.2 million people will benefit from implementation of coastal embankment rehabilitation works that will provide partial protection from cyclones for crops, infrastructure, and human beings. Since the poor are least able to recover from cyclone damage and the construction works under this project will use their labor intensively, the poor will benefit disproportionately. [b]
Nonformal Education Project (IDA)	The government will be helped in establishing a nonformal education system that is capable of delivering effective, large-scale, affordable literacy programs to low-literacy districts and to females in particular. [b]
River Bank Protection Project (IDA)	Between 2 million and 3 million people living along the right bank of the Brahmaputra River at Mathurapara-Sariakandi, mostly poor, marginal farmers, will benefit from a project that will help finance construction to prevent flooding of the hinterland and to secure the Jamuna bridge. [b]
India Coal Sector Environmental and Social Mitigation Project (IDA)	Coal India will be helped to make coal production more socially and environmentally sustainable. The implementation of Indigenous Peoples Development Plans for 25 mines that are slated to receive financial assistance is expected to improve the lives of some 186,000 people, most of whom are poor. [b]
Second District Primary Education Project (IDA)	This project will improve the quality of instruction and learning achievement for approximately 10 million mostly poor children a year in 70 districts in 11 project states. It will particularly help children with mild to moderate disabilities, girls, and scheduled caste/scheduled tribe students. [a,b]

Country and project	*Reason(s) for inclusion*
Orissa Water Resources Consolidation Project (IDA)	The planning, management, and development process for the Orissa state's water resources will be improved, while agricultural productivity will increase through investments to improve existing irrigation schemes and complete other schemes. A tribal development plan, enhanced employment opportunities for the landless, and adequate access to water will benefit the state's poorer population. [b]
State Health System II Project (IDA)	About 10 million outpatients and 700,000 inpatients—approximately two-thirds of whom belong to the poorest 40 percent of the population—currently using hospital services in Karnataka, Punjab, and West Bengal are to benefit from a project that will help these state governments create a first-referral healthcare system. [b]
Pakistan Balochistan Community Irrigation and Agriculture Project (IDA)	Balochistan's community irrigation schemes (especially those in small, remote communities) will be developed with help from farmers' organizations to operate and maintain them efficiently. [b]
Northern Health Program Project (IDA)	The health status of the population—especially women and young children—in the northern areas and in Azad Jammu and Kashmir will be improved through cost-effective measures in primary health care. [b]
NWFP Community Infrastructure and NHA Strengthening Project (IDA)	The productivity and well-being of low-income groups in North-West Frontier Province will be increased through improvement of living conditions by the provision of basic urban and rural infrastructure. [b]
Sri Lanka Teacher Education and Teacher Deployment Project (IDA)	Cost-effective preservice and inservice teacher education for primary and secondary teachers will be started, thereby enhancing the quality of education for all children, especially the poor, since their schools currently have the greatest share of untrained teachers. [b]
Sub-Saharan Africa	
Angola Social Action Project (IDA)	A social action fund, designed to improve access to basic services and generate employment for the poor in rural and urban areas, by rehabilitating and equipping community infrastructure in health, education, and water and sanitation, will be financed. [b]
Cameroon Transport Sector Project (IDA)	A three-year time segment of the country's road rehabilitation and maintenance program will be financed, directly affecting the poor through the promotion of local small and medium-size enterprises and the use of labor-intensive methods and local materials. [b]
Côte d'Ivoire Integrated Health Services Development Project (IDA)	The foundation for universal access to health services, which would be a great achievement in the country's fight against poverty, will be created. [b]
Eritrea Community Development Fund Project (IDA)	This will finance community-initiated subprojects that will support the rehabilitation and development of basic social and economic infrastructure—especially in rural and war-torn areas—and improve the income-generating capacity of poor people and households. [b]
Ethiopia Ethiopian Social Rehabilitation and Development Fund Project (IDA)	This project will support the Ethiopian Social Rehabilitation Development Fund, which provides financial and technical assistance to poor, mainly rural communities to launch small projects aimed at creating the assets and services needed to upgrade their economic and social standards and strengthen self-reliance. [b]

Country and project	*Reason(s) for inclusion*
Ghana Basic Education Sector Improvement Project (IDA)	Access to basic education, especially for girls, the poor, and other disadvantaged segments of the population, will be improved, and pedagogic effectiveness will be enhanced by improving the teaching process and learning outcomes. [b]
Urban Environmental Sanitation Project (IDA)	Productivity and living standards in the country's five major cities will increase, especially for lower-income people, through provision of drainage, sanitation, solid waste, and community-upgrading infrastructure. [b]
Kenya Arid Lands Resource Management Project (IDA)	Community-driven initiatives to reduce widespread poverty, enhance food security, and conserve the natural resource base in nine districts will be supported, thereby benefiting a population of about 1 million with limited linkages to the rest of the economy. [a,b]
Lesotho Road Rehabilitation and Maintenance Project (IDA)	Some 2 millions man-days of work will be generated over a five-year period through a project that seeks to develop the government's capacity to regularly maintain the whole classified road network. [b]
Madagascar Social Fund II Project (IDA)	The nationwide expansion of the activities of a social fund currently engaged in poverty-reduction activities in two of the country's six provinces will be supported. [b]
Malawi Primary Education Project (IDA)	A primary education project will increase effective access to education through the construction of classrooms to provide shelter and adequate learning conditions for about 100,000 children currently taking their lessons in the open air. [b]
Social Action Fund Project (IDA)	The country's Social Action Fund, targeted at rural communities in the poorest areas of the country, will be supported through the financing of subprojects aimed at increasing access to safe water, construction of primary schools, and provision of primary health care infrastructure. [b]
Mali Vocational Education and Training Consolidation Project (IDA)	A vocational education and training project will focus particularly on developing skills among relatively poor individuals, especially women working in the informal sector, thereby improving their productivity and earnings. [b]
Mauritania Urban Infrastructure and Pilot Decentralization Project (IDA)	A program of poverty-oriented, labor-intensive works subprojects, consisting of construction or rehabilitation of urban facilities, will be supported. [b]
Mozambique Health Sector Recovery Program Project (IDA)	This will finance a five-year segment of the National Health Strategy, expanding coverage, improving the quality of health services, and improving equity in access to services, with a shift of resources toward rural areas and a basic package of health care. [b]
Niger Natural Resources Management Project (IDA)	The quality of life of more than 200, 000 people living in some 380 rural communities will be substantially improved through the design and implementation of community-based natural resource—management plans. [b]
Senegal Pilot Female Literacy Project (IDA)	About 300,000 people, three-quarters of whom are women, are expected to benefit from a project that supports the first phase of the government's 10-year program to reduce by half illiteracy among people aged 10 to 39. [b]

Note: A project must meet at least one of two criteria to be included in the PTI. Criterion [a] refers to projects with a specific targeting mechanism for reaching the poor, and criterio [b] refers to projects for which the proportion of the poor among the project's beneficiaries is significantly larger than the proportion of the poor in the total population. The applicable criteria for each project are indicated in brackets.

Table D-5: Program of targeted interventions, fiscal 1997

Country and project	*Reason(s) for inclusion*
East Asia and the Pacific	
Cambodia	
Agriculture Productivity Improvement Project (IDA)	Smallholder farmers, who are predominantly poor and largely excluded from the market economy, will gain access to basic agricultural services and new technology. Improving their agricultural productivity will increase food security and rural incomes. [b]
Disease Control and Health Development Project (IDA)	The rural poor will benefit from this project, which aims to reduce death and sickness caused by malaria, tuberculosis, and HIV/AIDS through the provision of drugs and laboratory supplies, impregnated bed nets, training, and technical assistance. The project will also increase the poor's access to basic health services and facilities. [b]
China	
Qinba Mountains Poverty Reduction Project (IBRD/IDA)	Absolute poverty in 26 of the poorest counties in the Qinba mountains region will be significantly reduced through a voluntary system designed to enhance rural labor mobility, labor-intensive construction of rural roads and water supply systems, land development, technical assistance to farmers, and the provision of credit services to poor households. The project will also improve the health and education status of about 2.3 million upland poor. [b]
National Rural Water Supply Project (IDA)	About 4.6 million poor rural people will gain access to safe, conveniently located water as a result of 1,450 new water facilities that will provide direct household connections; the project will also provide alternative low-cost water supply technologies to serve communities where population is sparse or ground and surface water is scarce. [b]
Fourth Basic Education Project (IDA)	About 6.2 million poor children will have better access to basic education from improvements to school facilities, provision of equipment and furniture, expansion of existing scholarship programs, and reduction of textbook costs through a textbook rental scheme. Particular attention will be given to girls and minority children, who will benefit from the provision of bilingual instruction and books in minority languages. [a,b]
Indonesia	
Central Indonesia Junior Secondary Education Project (IBRD)	The poor will have greater access to junior secondary education at lower costs owing to the construction of schools in underserved rural areas and the provision of scholarships to 34,000 poor students who perform well, with priority given to girls in public and private schools. The participation of the private sector in the provision of education will be encouraged in order to improve the quality of education in poor communities. [a,b]
Second Sulawesi Urban Development Project (IBRD)	The provision of basic infrastructure services will benefit the urban poor in the four provinces of Sulawesi by increasing their access to clean, affordable water; reducing property damage caused by frequent flooding; and improving health conditions through human and solid waste disposal and wastewater treatment. Poor neighborhoods will be targeted on the basis of infrastructure deficiencies, high population density, and low incomes. [b]
Second Village Infrastructure Project (IBRD)	Grants and engineering assistance will be provided to the inhabitants of 2,600 poor rural villages to enable them to plan and build local public infrastructure, such as access roads, bridges, water supply and sanitation facilities, drainage, markets, piers, or other small economic infrastructure. Village laborers will benefit from employment and cash compensation. [b]
Sumatra Junior Secondary Education Project (IBRD)	Access to junior secondary education will improve as a result of building more schools, providing student and teacher accommodations in rural and remote areas, and financing scholarships for 32,600 talented poor students. Priority will be given to girls in public and private schools and to underserved rural areas where female participation is lowest. [a,b]

Country and project	*Reason(s) for inclusion*
Intensified Iodine Deficiency Control Project (IBRD)	This project will provide significant health benefits to the poor living in iodine-deficient communities by monitoring their iodine status, increasing their supply and consumption of iodized salt, and distributing iodized salt capsules to women of childbearing age. The incidence of disability in children, and goiter, prevalent in women during pregnancy and lactation, will be reduced. [b]
Philippines Third Elementary Education Project (IBRD)	This project will improve learning achievements, completion rates, and access to quality elementary education in the most disadvantaged districts of 26 poor provinces through the provision of textbooks and instructional materials, inservice training of teachers and administrators, and demand-side financing of small scholarships and community vouchers to build and equip schools. [b]
Water Resources Development Project (IBRD)	Poor lowland farmers will benefit from increased productivity and new employment opportunities resulting from improved irrigation, civil works, watershed management, and erosion control. Small farmers will also benefit indirectly from repairs to major irrigation structures and schistosomiasis control. [b]
Agrarian Reform Communities Development Project (IBRD)	This project is intended to help raise the productivity and incomes of farmers in disadvantaged Agrarian Reform Communities by strengthening farmer organizations and improving their access to productive resources and social and physical infrastructure, such as irrigation, roads, bridges, potable water, health and education facilities, and postharvest handling and processing centers. [b]
Vietnam Rural Transport Project (IDA)	This project will generate employment and income for poor villagers in 15 selected provinces by upgrading their access to other rural communities and linking them to district and provincial networks. Rehabilitating and maintaining roads, which will allow the movement of goods and people to expanding markets, will generate about $14 million of wage income for local laborers. [b]
Europe and Central Asia	
Azerbaijan Farm Privatization Project (IDA)	Vulnerable groups in six districts will be trained so that they can take advantage of newly created job opportunities resulting from the project's land privatization and farm restructuring. [b]
Bosnia and Herzegovina Local Initiatives Project (IDA)	The project targets economically disadvantaged persons (displaced persons, war widows, war invalids, returning refugees) and microentrepreneurs who do not have access to credit. Loans disbursed through contracting NGOs will provide funding for microenterprises and employment to disadvantaged persons affected by the war. [a]
Georgia Agriculture Development Project (IDA)	More than 130,000 poor small farmers and small-scale rural businesses will benefit from the establishment of credit unions in rural areas, which will also introduce a mechanism for noncollateral-based lending to help increase agricultural productivity. [b]
Kazakhstan Pilot Water Supply Project (IBRD)	About 30,000 poor people in the Aralsk and Kazalinsk districts of the Aral Sea disaster zone will benefit from improved water supply and living conditions and from employment related to construction activities. [b]
Latvia Welfare Reform Project (IBRD)	The poorest and most vulnerable groups will benefit from a more efficient and effective social welfare system that will improve targeting, assistance, and service delivery during the transition to a market economy. [b]

Country and project	*Reason(s) for inclusion*
Lithuania Social Policy and Community Social Services Development Project (IBRD)	Government institutions will be strengthened to provide affordable social security and improve community social care services for six pilot areas encompassing about 893,000 inhabitants in order to assist the poorest and most vulnerable in leading more productive lives. [b]
Tajikistan Pilot Poverty Alleviation Project (IDA)	The incomes of about 250,000 poor people will be improved, and the local capacity to implement participatory methods in reducing poverty will be developed through community organizations. The project will support reconstruction activities, housing rehabilitation, microenterprise development, social services infrastructure, and agricultural production (especially for female-headed households). [b]
Turkey Primary Health Care Services Project (IBRD)	The health of the poor in Eskisehir and Bilecik will be improved by expanding public primary care services and developing an effective referral system. The improvements carried out in these two areas will contribute to building capacity in the public health care system as well as serve as a model for nationwide replication. [b]
Turkmenistan Water Supply and Sanitation Project (IBRD)	About 190,000 inhabitants in seven *etrap* (district) centers and nine collective farms in the Dashkhovuz *velayet* (province) will benefit from safe, reliable water supply, and approximately 950,000 people, the entire population of the Dashkhovuz *velayet*, are expected to benefit from a health and hygiene education program. [b]
Uzbekistan Pilot Water Supply Engineering Project (IBRD)	A pilot project will provide citizens of Kizketken, a peri-urban settlement of about 34,000 in the Aral Sea disaster zone, with access to safe drinking water through a network of tertiary distribution pipelines. [b]
Latin America and the Caribbean	
Argentina Second Maternal and Child Health and Nutrition Project (IBRD)	Women and children in at least 20 poor municipalities will benefit from reproductive health and supplementary feeding programs that will provide maternal, prenatal, and pediatric care to low-income mothers and children. Early childhood development activities will also improve the nutritional and psychosocial status of children by focusing on domestic violence prevention and early detection of high-risk families, and by providing educational materials, toys, and equipment. [b]
AIDS Prevention and Sexually Transmitted Diseases Control Project—LUSIDA (IBRD)	This project will reduce the rate at which HIV infection spreads among vulnerable and high-risk groups, as well as the general population, by conducting mass- and targeted communications campaigns to disseminate information about HIV transmission and prevention, supporting the adoption of more effective preventive measures, and improving facilities for diagnosis, treatment, and care of HIV and other sexually transmitted diseases. [b]
Second Social Protection Project—TRABAJAR (IBRD)	This project will provide temporary income support to about 350,000 poor, unemployed workers hired in the TRABAJAR public works program, which includes small, quickly implemented, labor-intensive investments that will improve social and economic infrastructure in poor communities. [b]
Belize Social Investment Fund Project (IBRD)	Over 500 small-scale projects will be funded to provide poor communities with basic social and economic infrastructure, and better access to social services and training. The urban and rural poor, including poor indigenous populations and immigrants, will benefit from increased access to primary education, credit, and water supply; lower incidence of disease and better overall health; and improved drainage, feeder roads, and pedestrian bridges. [b]

Country and project	*Reason(s) for inclusion*
Brazil	
Agricultural Technology Development Project (IBRD)	A competitive grants system will be used to finance research and the transfer of technology in the areas of family farm development, advanced biotechnology, natural resource management, and agribusiness. Nearly 4.3 million farms, including those of the resource-poor farmers in the Northeast region, will benefit from increased agricultural productivity and employment opportunities. [b]
Bahia Municipal Infrastructure Development and Management Project (IBRD)	The living conditions of the urban poor will be improved through a package of integrated urban infrastructure investments focusing on basic sanitation. Low-income residents in the peripheral areas of cities and towns will benefit from better public health conditions resulting from improvements to solid waste collection and disposal, storm drainage, and sewage collection and treatment. Areas where the average household income falls below an established minimum will be targeted. [a,b]
Ceará Water Resources Management Pilot Project (IBRD)	This project aims to reduce the impact of cyclical droughts and water shortages within the semi-arid state of Ceará by improving access to reliable water supply. This will help spur private investment and create employment opportunities for the rural and urban poor. [b]
Land Reform and Poverty Alleviation Pilot Project (IBRD)	The incomes and quality of life of about 15,000 poor rural farmers in five states in northeastern Brazil will improve as a result of better access to land ownership and participation in small-scale community subprojects. The project will provide matching grants to rural community associations to finance priority investments, such as rural water supply, local road improvements, day-care centers, and minor irrigation schemes. [b]
Natural Resources Management and Rural Poverty Alleviation Project (IBRD)	About 112,000 rural households in more than 1,000 microcatchments will benefit from subprojects focusing on soil and water conservation, erosion control, protection of degraded and fragile areas, and agrochemical disposal. This project will also finance subprojects that will increase household earnings and create rural employment, as well as investments in social infrastructure that will provide household electricity, better water and sanitation services, and community facilities. [b]
Rural Poverty Alleviation Project—Pernambuco (IBRD)	This project will provide the rural poor with greater access to basic social and economic infrastructure. About 130,000 families living in small, isolated rural areas will benefit from water supply and minor irrigation works that will reduce their vulnerability to drought. The project will also expand benefits received from existing subprojects and provide grants to rural community associations to finance new subprojects identified by those groups as priority investments. These include infrastructure projects (electrification, road improvements), agricultural projects (agroprocessing, community tractor schemes), and social services projects (day-care centers, schools, and health post rehabilitation). [b]
Rural Poverty Alleviation Project—Piaui (IBRD)	This project is identical to the above and will benefit approximately 162,000 families living in small, isolated rural areas of Piaui. [b]
Rural Poverty Alleviation Project—Rio Grande do Norte (IBRD)	This project is identical to the above and will benefit approximately 104,000 families living in isolated rural areas of Rio Grande do Norte. [b]
Guatemala	
Basic Education Reform Project (IBRD)	This project will help increase preprimary and primary school enrollment in rural areas, and enhance the efficiency and quality of basic education there. Indigenous children will benefit from the expansion of bilingual education; girls will be reached through nationwide communication and awareness campaigns aimed at parents and community leaders, and the printing and distribution of training materials related to girls' education. [a,b]

Country and project	*Reason(s) for inclusion*
Haiti Forest and Parks Protection Technical Assistance Project (IDA)	This project will initiate activities to protect three valuable forest ecosystems and contain the degradation of forest resources. Local rural communities, where the majority of the population is poor, will benefit from profits gained in the harvesting of forest products, greater efficiency of existing irrigation systems in downstream areas, and a reduction of farm losses from flood damage caused by deforestation and sedimentation. [b]
Honduras Rural Land Management Project (IDA)	The modernization of the land administration system will reduce land conflict among small-scale farmers, agrarian reform enterprises, indigenous groups, and farmers engaged in community forestry. Poor upland farmers will also benefit from better nutrition, food security, and higher incomes through improved agriculture and forestry practices; local communities and residents in forest areas will have greater control over forest management and protection. [b]
Jamaica Social Investment Fund Project (IBRD)	More than 800 subprojects will be financed to provide low-income rural and urban communities with basic services and infrastructure. The poorest geographical regions will benefit from subprojects that aim to increase access to basic education, nonformal training, and employment. Other subprojects will support better health care facilities for children and the elderly, improved access to markets, and activities to increase productivity and household income. [b]
Student Loan Project (IBRD)	More Jamaican students will be able to pursue higher education through an expanded student loan scheme administered by the commercial banking system. The poorest students will be provided with financing options to pay for their share of higher education on an ongoing basis, and poor full-time students in two universities will receive grants to help meet expenses not covered by subloans, such as those for housing and maintenance costs and books. [a]
Mexico Aquaculture Development Project (IBRD)	About 7,500 aquaculture producers lacking adequate land, capital, and technical skills will be given the opportunity to participate in small-scale commercial aquaculture through technical assistance, training, and investments in aquaculture parks and hatcheries. Economically disadvantaged and indigenous producers will benefit from additional income, food, and employment opportunities, and lower risk from shrimp disease caused by infected postlarvae. [b]
Community Forestry Project (IBRD)	Poor and indigenous owners of communal property in Oaxaca's forestry communities will receive training and technical assistance that will enable them to manage their resource base in a sustainable manner and expand the range of income-generating options available to them. The promotion of timber- and other, nontraditional products will diversify production and increase employment. [b]
Rural Finance Technical Assistance and Pilot Project (IBRD)	This project will pilot the provision of financial services to small and rural entrepreneurs and microentrepreneurs in rural areas by establishing experimental banking offices in small rural locations. Ethnic communities and other disadvantaged groups will benefit from increased access to viable, competitively priced, and untargeted deposit and credit services. [b]
Nicaragua Rural Municipalities Project (IDA)	Improved natural resource management and rural investments in economic infrastructure and small-scale productive subprojects will help raise the productivity and incomes of about 300,000 people living in 32 municipalities. Project investments in soil and moisture conservation, farm forestry, subsistence agricultural and fishing inputs, wildlife farming, and microenterprises will benefit small farmers and fishermen, as well as women and indigenous communities. [b]

Country and project	*Reason(s) for inclusion*
Panama	
Rural Poverty and Natural Resources Project (IBRD)	About 75,000 people will benefit from improved economic opportunities and living conditions resulting from better management of natural resources and more productive soils, forests, and water sources. Subprojects in agricultural technology will generate employment at low cost, and women will receive special assistance in marketing, agro-industries, small livestock raising, medicinal plant marketing, and marketable handicraft. [b]
Social Investment Fund Project (IBRD)	Communities in the poorest districts will benefit from high-priority, small-scale infrastructure investments in water supply and latrine systems, footpaths and sports fields, preprimary and primary schools, and health posts. Supplementary school feeding will be provided in 11 of the poorest districts, and poor indigenous groups, women and children, and the elderly who meet certain eligibility criteria will be given priority access to social services and microenterprise credit. [a,b]
Paraguay	
Maternal Health and Child Development Project (IBRD)	The health of women and children in six underserved rural areas will be improved through reproductive health interventions, health education emphasizing preventive care, and the provision of needed equipment and pharmaceuticals. Early child development centers will also be established to give poor working mothers an affordable child care alternative by providing children between two and five years of age with mental stimulation, three daily meals, and immunizations. [b]
Peru	
Second Social Development and Compensation Fund Project (IBRD)	Community-based subprojects will stimulate economic activity in low-income areas, with priority given to the extreme poor, indigenous groups, and women. Investments in primary education infrastructure, water and sewerage systems, health posts, electricity, and small bridges and roads will improve social and living conditions in poor communities, and increase production for autoconsumption and sale in local markets. [b]
Sierra Natural Resources Management and Poverty Alleviation Project (IBRD)	This project will increase rural household incomes and alleviate poverty through sound and sustainable natural resource management, irrigation, and forestry. The extreme poor living in about 125 microcatchments will benefit from rural investments in soil conservation works, small-scale irrigation structures, agroforestry, and improved production technology. The project will also finance small-scale economic activities for women to increase their revenues. [a]
Middle East and North Africa	
Algeria	
Rural Employment Project (IBRD)	The Rural Employment Project will generate and stimulate employment in rural northwest Algeria by using labor-intensive techniques that will create about 40,000 person-years of direct employment. Activities such as afforestation and reforestation, construction of flood control structures, and agricultural development will be supported. [b]
Lebanon	
Agriculture Infrastructure Development Project (IBRD)	While giving priority to the poorest farmers in the most depressed areas to the extent feasible, this project will raise the incomes and living standards of Lebanese farmers by helping them realize more from their landholdings; it will also facilitate marketing of agricultural produce through an improved rural road network. [a,b]
Tunisia	
Natural Resources Management Project (IBRD)	Smallholders will benefit from improved water supply and pastures, rehabilitation of small-scale irrigation systems, and integrated land management techniques to improve natural resource management and increase agricultural productivity. Beneficiary communities will prepare participatory development plans outlining their priorities for key small-scale rural infrastructure investments. [b]

Country and project	*Reason(s) for inclusion*
Yemen	
Social Fund for Development Project (IDA)	A social fund for development will target poor and disadvantaged communities by generating temporary and permanent employment, providing greater access to essential social services, and increasing the economic integration of women. A women's union will make funds available to poor women entrepreneurs living in squatter areas for microenterprise activities. [b]
South Asia	
Bangladesh	
Poverty Alleviation Microfinance Project (IDA)	The project will provide funds to approximately 1.2 million poor people, over 90 percent of whom are women, who are eligible for credit. The beneficiaries will use the funds to engage in labor-intensive, income-generating activities in the rural nonfarm sector, such as cottage industries. The project targets destitute women and helps them develop their earning capacity by providing training in occupational skills, encouraging savings accumulation, and providing access to credit. [a]
Second Rural Roads and Markets Improvement and Maintenance Project (IDA)	The rural poor, especially women and other disadvantaged groups, will benefit from the development of rural transport and markets by the resulting employment- and income-generating opportunities. General rural health conditions and the poor's access to administrative and social services will also be improved. Disadvantaged women and the landless poor will be contracted to carry out routine maintenance of embankment slopes and earth shoulders. [a,b]
India	
Ecodevelopment Project (IDA)	About 427,000 poor villagers in seven protected areas will be participating in an ecodevelopment program that will provide income-generating activities and address urgent global biodiversity conservation needs. [a,b]
Malaria Control Project (IDA)	An estimated 200 million people, mainly the rural poor living in areas where malaria is endemic, will benefit from more effective malaria control interventions tailored for local needs. The long-term objective is to reduce death, morbidity, and social and economic loses from malaria. [b]
Reproductive and Child Health Project (IDA)	The project will target poor women and children under age five living in rural areas and urban slums throughout India. The family welfare program will be enhanced by reducing unwanted pregnancies for about 30 million women, decreasing health risks associated with pregnancy for almost 220 million women, and increasing child survival for children under 5 by increasing program coverage and effectiveness for about 10 million children. [a,b]
Rural Women's Development and Empowerment Project (IDA)	More than 130,000 poor women in six states will benefit from economic and social development that will give them greater access to income-generating activities, credit from self-help groups and lending institutions, access to basic social services, and control over resources that can improve the quality of their lives. Women who have not fully benefited from past interventions of economic and social programs will especially be targeted. [a,b]
Tuberculosis Control Project (IDA)	More than 1.5 million tuberculosis patients will be cured and many more people potentially freed from risk of infection. The poor are especially susceptible to tuberculosis and will benefit the most from such services. [b]
Pakistan	
Punjab Private Sector Groundwater Development Project (IDA)	Groundwater resources will be privatized and an estimated 380,000 farm families, mostly small farmers cultivating less than 6 hectares, will benefit from reduced water costs and enhanced agricultural production. [b]

Country and project	*Reason(s) for inclusion*
Sub-Saharan Africa	
Burkina Faso Mining Sector Capacity Building and Environmental Management Project (IDA)	The productive capacity and working conditions of artisanal miners, a particularly disadvantaged group, will be improved through the provision of employment and technical extension services for small-scale mining, while the communities in the mining regions will benefit from social and physical infrastructure, including health facilities and an improved transport network. [a,b]
Post-Primary Education Project (IDA)	Resources will be concentrated in the most underserved populations, with 86 percent of the school construction program targeted to the poorest provinces, scholarships will be reserved for girls, as will dormitory construction, and an additional 8,000 students in the 10 provinces with the highest incidence of poverty and lowest school coverage will be enrolled. [a,b]
Comoros Third Education Project (ITF)	The quality of and access to basic education will be improved through the provision of pedagogical materials, provision of more efficient and effective teaching and learning methods, introduction of better management practices, and improved supervision practices. [b]
Côte d'Ivoire Rural Land Management and Community Infrastructure Development Project (ITF)	A rural land management project will improve the quality of life of 1,300,000 people by investing in agricultural production and natural resource management to increase outputs and introduce sustainable production systems, as well as improve rural infrastructure, including access to schools, health services and clean water. [b]
Ghana Village Infrastructure Project (IDA)	Support for labor-intensive civil works, including road rehabilitation and construction of trails, and small-scale agro-based businesses, such as food processing, will lead to income generation. Improved access to safe potable water will have positive effects on the health of rural communities, and will result in time and energy savings, especially for women. [b]
Guinea Third Water Supply and Sanitation Project (IDA))	Employment opportunities will be created during the rehabilitation and expansion of water supply systems and extension of sewerage facilities in low-income areas to ensure accessibility to and affordability of safe water and proper sanitation for disadvantaged groups. [b]
Guinea-Bissau Basic Education Support Project (IDA)	The project will improve access to primary schools, especially in poor rural areas, by supporting the construction and rehabilitation of classrooms. In addition, the quality of education will be improved by providing textbooks, an innovative in-service teacher training system, and technical support for teachers. Girls' enrollment will be promoted by constructing facilities like latrines, organizing "satellite schools" to address concerns for the safety of girls, and recruiting, training, and deploying female teachers. [b]
Kenya Early Childhood Development Project (IDA)	The project seeks to improve the cognitive and psychosocial development of 1.5 million children aged zero to six years from poor communities and disadvantaged households. Initially, the project will, on a pilot basis, concentrate on upgrading the performance of existing Early Childhood Development (ECD) centers through teacher training and community capacity building. During the second phase, the project will expand ECD services to new areas, implement a nutrition and health package, and support community grants that will be used to meet the recurrent costs of the centers. [b]

Country and project	*Reason(s) for inclusion*
Madagascar	
Urban Infrastructure Project (IDA)	The construction and rehabilitation of physical infrastructure, including roads, drainage systems, sidewalks and retaining walls, will generate employment for semi-skilled urban labor. Revenue-generating subprojects, such as rehabilitating bus stations, markets, and abattoirs, will also be supported. It is estimated that approximately 150,000 man-years of employment will accrue to low-income urban workers. [b]
Mali	
Pilot Private Irrigation Promotion Project (IDA)	Smallholders will benefit from improved technology, such as farm equipment used for small-scale irrigation production, and access to financial services that will facilitate investments in farm inputs. Women irrigators will be targeted to participate in training activities that will provide information on better farming methods and access to credit. [b]
Urban Development and Decentralization Project (IDA)	Urban infrastructure improvements will provide basic infrastructure services that will improve the living conditions of the urban poor and create 200,000 person-months of direct employment through labor-intensive public works. [b]
Mauritania	
Rainfed Natural Resource Management Project (IDA)	The project aims to increase subsistence production through improved farming methods, such as construction of water retention dikes, contour bunds, and anti-erosion dikes. In addition, the project will support income-generating activities, including sustainable woodland charcoal production, establishing orchards, and promoting cottage industries. [b]
Niger	
Health Sector Development Program (IDA)	The quality and coverage of basic health services, and the supply and distribution of essential generic drugs will be improved to ensure that disadvantaged groups, including women, are receiving the services they require. [b]
Urban Infrastructure Rehabilitation Project (IDA)	Civil works and income-generating subprojects will create employment for unskilled workers who comprise the majority of the urban poor. Activities will include the construction and rehabilitation of infrastructure and municipal assets, including abattoirs, parking lots, and public latrines, as well as improving the physical environment, including paving roads and sidewalks, and rehabilitating the drainage system. [b]
Senegal	
Sustainable and Participatory Energy Management Project (IDA)	Rural income-generation will result from direct sales of fuelwood and the development of agro-forestry production activities, such as community-operated carbonization units. [b]

Note: A project must meet at least one of two criteria to be included in the PTI. Criterion [a] refers to projects with a specific targeting mechanism for reaching the poor, and criterion [b] refers to projects for which the proportion of the poor among the project's beneficiaries is significantly larger than the proportion of the poor in the total population. The applicable criteria for each project are indicated in brackets.

Annex E Poverty-Focused SALs and SECALs, Fiscal 1996 and 1997

Poverty-focused adjustment operations

Adjustment operations support macroeconomic and sectoral policies that promote growth and efficient resource allocation, which are essential for reducing poverty. Some adjustment operations that contain specific poverty reduction measures are referred to as "poverty-focused operations."

An adjustment operation is considered to be poverty-focused if it meets at least one of the three criteria in supporting government efforts to: reallocate public expenditures in favor of the poor, eliminate distortions and regulations that disadvantage the poor and limit their income-generating opportunities, or support safety nets that protect the most vulnerable members of the population. (In comparison with the previous years, monitoring poverty and developing poverty policy are no longer included as poverty-focused criteria. It should be noted that past adjustment operations have never been classified as poverty-focused based on either of these two criteria alone.)

Table E-1: Poverty-focused adjustment operations, fiscal 1996 and 1997

	Fiscal 1996			*Fiscal 1997*		
	Total	*IDA*	*IBRD*	*Total*	*IDA*	*IBRD*
SAL lending						
($ millions)	872	522	350	779	639	140
Number of SALs	11	9	2	11	8	3
SECAL lending						
($ millions)	1,290	440	850	1,750	0	1,750
Number of SECALs	5	3	2	4	0	4
RIL lending						
($ millions)	65	65	—	120	50	70
Number of RILs	1	1	—	3	1	2
Total SAL/SECAL/RIL:						
Lending ($ millions)	2,227	1,027	1,200	2,649	689	1,960
Number of loans	17	13	4	18	9	9

—Not available.

The Bank approved 29 adjustment operations in fiscal 1996 and the same number was approved in fiscal 1997 (excluding one debt reduction loan in each year). In fiscal 1996, 59 percent (17 of 29) of adjustment operations were poverty-focused, compared with 62 percent (18 of 29) in fiscal 1997.

Table E-1 shows the number and amount of lending for SALs, SECALs, and RILs. Table E-2 itemizes the poverty-focused components of each operation. Tables E-3 and E-4 briefly describe the poverty-focused adjustment operations for fiscal 1996 and 1997.

Both the share of operations classified as poverty focused as well as the total amount of Bank lending for poverty-focused operations increased steadily between fiscal 1995 and fiscal 1997. Poverty-focused operations as a share of all adjustment operations increased from 52 percent in fiscal 1995 to 59 percent in fiscal 1996, and to 62 percent in fiscal 1997. Similarly, funds going to poverty-focused operations rose from US$1.65 billion in fiscal 1995 to US$2.23 billion in fiscal 1996, and to US$2.65 billion in fiscal 1997. For IDA countries only, the volume of poverty-focused adjustment lending fluctuated during this period (US$598 million in fiscal 1995, US$1.03 billion in fiscal 1996, and US$689 million in fiscal 1997), but the share of poverty-focused lending in total IDA adjustment lending increased from 56 to 61 and then to 73 percent.

Depending on regional priorities, the number of poverty-focused operations and the amount of lending for these operations vary from year to year. In fiscal 1996 the largest number of poverty-focused adjustment operations was approved in the Sub-Saharan African region (7 out of 17), whereas in fiscal 1997 adjustment operations were concentrated in the European and Central Asian region (11 of 18). The volume of poverty-focused lending in fiscal 1996 was relatively higher in two regions (Sub-Saharan Africa, US$682 million, and Europe and Central Asia, US$685 million). In fiscal 1997, poverty-focused lending was confined to only these two regions (Europe and Central Asia received the bulk of fiscal 1997

funds, US$2.08 billion, and Sub-Saharan Africa received the remainder, US$565 million). This pattern is consistent with previous years—in fiscal 1995, when both the number and the volume of poverty-focused lending was highest in the European and Central Asian region, and in fiscal 1994, when the exceptionally high number of poverty-focused operations was due primarily to the support given for post-devaluation adjustment in countries of the CFA franc zone in Sub-Saharan Africa.

The nature and focus of poverty-focused operations differ among regions. While the majority of adjustment loans in the European and Central Asian region were concerned with safety net measures, the poverty-focused operations in Africa emphasized reallocating expenditures toward the social sectors, improving coverage of social services, and eliminating sectoral distortions that particularly disadvantage the poor.

Objectives of poverty-focused adjustment operations

The following three areas represent the main objectives addressed by poverty-focused SALs, SECALs, and RILs in fiscal 1996–97 (see table E-2).

Public expenditure reforms. The majority of poverty-focused operations (14 of 17 in fiscal 1996 and 12 of 18 in fiscal 1997) will reform public expenditures to benefit the poor in different ways. The Algeria Structural Adjustment Loan (fiscal 1996, IBRD) will support an increase in nonwage recurrent education expenditures and expenditures for basic education and preventive health care. The Fiscal Restructuring and Deregulation Program in Malawi (fiscal 1996, IDA) will prioritize, protect, and, where necessary, expand inter- and intrasectoral recurrent expenditure allocations to the social sectors on a sustainable basis. This will include reallocating resources from primary road projects to village access roads, increasing the share of expenditure on primary education, and increasing recurrent expenditures on agricultural extension services in order to reach smallholder farmers. Sectoral program priorities, such as allocations for district-level health services, will be determined through a participatory, bottom-up process. The Latvia Structural Adjustment Loan (fiscal 1997, IBRD) aims to improve the government's management of public resources by reforming local finances to improve the delivery and cost-effectiveness of health, education, and social assistance services, which will be particularly beneficial for the poor. The Chad Second Structural Adjustment Credit (fiscal 1997, IDA) will support the government's effort to reallocate public expenditures toward priority sectors, and increase the number of primary school teachers and health service workers.

Addressing distortions that especially affect the poor. Operations that address distortions that especially affect the poor represent a variety of interventions, as illustrated in six poverty-focused adjustment operations approved in fiscal 1996 and nine in fiscal 1997.

The Togo Economic Recovery and Adjustment Credit (fiscal 1996, IDA) will support the elimination of labor regulations that deter the poor's access to employment opportunities. By increasing the poor's access to labor markets, a major constraint to income-earning possibilities for the poor will be lifted. The Agriculture Sector Adjustment Loan in Romania (fiscal 1997, IBRD) will support a new scheme to supply vouchers for inputs (such as fertilizer, seeds, and mechanical services) directly to small farmers, bypassing traditional state delivery mechanisms and minimizing the diversion of subsidies. Legal and regulatory reforms will provide private individuals with ownership rights to land. The Mozambique Third Economic Recovery Credit (fiscal 1997, IDA) will support the government's declared policy to phase out the export tax on raw cashews, a measure that will substantially benefit small farmers, especially women.

Targeted programs and safety nets. Eight operations in fiscal 1996 and 10 in fiscal 1997 were poverty-focused because they supported targeted programs and safety nets. Of these, four in fiscal 1996 and nine in fiscal 1997 were in the European and Central Asian region. The Georgia Structural Adjustment Credit (fiscal 1996, IDA) will improve the safety net system for vulnerable families who remain unprotected by helping to establish a backup program of social assistance. Also, in order to ensure the sustainability and effectiveness of the pension system, this loan will help increase the pension age and introduce private pension plans. A Health Insurance Reform Loan in Argentina (fiscal 1996, IBRD) will reallocate resources and focus on health insurance reforms in order to benefit half a million farm laborers' families living below the poverty line. The Russia Social Protection Adjustment Loan (fiscal 1997, IBRD) will help reduce the adverse effects of transition on the poor and other vulnerable groups. It will establish a viable social safety net to ensure minimum income security and protection for the elderly, and provide training, counseling, and benefit provisions for all laid-off workers. Federal and sub-federal resources for social assistance, child allowances, pilot programs and the Social Insurance Fund will be reallocated to the poorest households.

Table E-2: Poverty-focused components of adjustment operations, fiscal 1996 and 1997

	Objective[a]			
	Reforming public expenditures[b]	*Addressing distortions*[c]	*Targeted programs*[d]	*Tranche release conditions*[e]
Poverty-focused adjustment operations, fiscal 1996				
Structural Adjustment Loans				
Algeria, Structural Adjustment Loan	√		√	√
Armenia, Structural Adjustment Credit*	√		√	√
Cambodia, Economic Rehabilitation Credit*	√			
Chad, Structural Adjustment Program*	√	√		√
Georgia, Structural Adjustment Credit*	√		√	
Lao PDR, Third Structural Adjustment Credit*	√			
Malawi, Fiscal Restructuring and Deregulation Program*	√	√		
Mali, Economic Management Credit*	√			√
Papua New Guinea, Economic Recovery Program	√	√	√	
Togo, Economic Recovery and Adjustment Credit*	√	√	√	
Yemen, Economic Recovery Credit*	√			
Sectoral Adjustment Loans				
Argentina, Health Insurance Reform Loan	√		√	
Cameroon, Structural Adjustment Credit*	√	√		√
Côte D'Ivoire, Agricultural Sector Adjustment Credit*		√		
Russian Federation, Coal Sector Adjustment Loan			√	√
Zambia, Economic Recovery and Investment Promotion Credit*	√			√
Rehabilitation Import Loans				
Azerbaijan, Rehabilitation Credit*			√	
Total	**14**	**6**	**8**	**7**
Poverty-focused adjustment operations, fiscal 1997				
Structural Adjustment Loans				
Chad, Second Structural Adjustment Credit*	√	√	√	
Kyrgyz Republic, Public Sector Resource Management Adjustment Credit*	√			√
Latvia, Structural Adjustment Loan	√		√	√
Macedonia, FYR, Structural Adjustment Loan and Credit*		√	√	√
Madagascar, Structural Adjustment Credit*	√	√		
Mozambique, Third Economic Recovery Credit*	√	√		
Niger, Public Sector Adjustment Credit*	√	√		
Romania, Social Protection Adjustment Loan			√	
Tanzania, Structural Adjustment Credit*	√			√
Uganda, Third Structural Adjustment Credit Project*	√			√
Zambia, Second Economic and Social Adjustment Credit*	√	√		√
Sectoral Adjustment Loans				
Romania, Agriculture Sector Adjustment Loan		√	√	√
Russian Federation, Social Protection Adjustment Loan	√		√	√
Ukraine, Agriculture Sector Adjustment Loan		√		√
Ukraine, Coal Sector Adjustment Loan	√		√	√
Rehabilitation Import Loans				
Bulgaria, Rehabilitation Loan			√	
Bulgaria, Critical Imports Rehabilitation Loan			√	
Tajikistan, Agricultural Recovery and Social Protection Credit*	√	√	√	
Total	**12**	**9**	**10**	**10**

* IDA credit

a. Four operations in fiscal 1996 also support the collection of data on poverty and the monitoring of the impact of adjustment on the poor: the Algeria Structural Adjustment Loan, the Chad Structural Adjustment Program, the Mali Economic Management Credit, and the Papua New Guinea Economic Recovery Program. In fiscal 1997 this was supported by five operations: the Chad Second Structural Adjustment Credit, the Mozambique Third Economic Recovery Credit, the Russian Federation Social Protection Adjustment Loan, the Ukraine Coal Sector Adjustment Loan, and the Zambia Second Economic and Social Adjustment Credit.

b. Supports the reallocation of public expenditures toward physical infrastructure and basic social services for the poor.

c. Focuses specifically on reducing distortions that especially disadvantage the poor.

d. Supports programs that provide safety nets or that target specific groups.

e. Contains tranche release conditions related to poverty-focused measures.

Source: World Bank.

Table E-3: Poverty-focused SALs and SECALs, fiscal 1996

Loan or credit	*Poverty-related objectives*
East Asia and the Pacific	
Cambodia Economic Rehabilitation Credit (IDA)	This credit will make it possible for the Cambodian government to increase public expenditures on health, education, and other social programs, which will help secure social services and increase the social welfare for the poorer segments of society.
Lao PDR. Third Structural Adjustment Credit (IDA)	In order to assist the Laotian government in its economic transition from central planning to a market-oriented economy, this credit will support further important institutional reforms. By enhancing the efficiency of public resource management, this credit will help the government prioritize expenditures toward priority social sectors and poverty reduction efforts.
Papua New Guinea Economic Recovery Credit (IBRD)	The first phase of the government's economic reform program to be supported by this credit will improve public service delivery by restructuring public expenditures to focus on the provision of basic services, including basic education and primary health. It will also help achieve the agreed target of 25 percent for minimum shares of actual expenditures on primary and secondary education and primary health and hospital services. To ensure more equitable allocations of public funds across regions this credit will help increase the level of transfers to the relatively poor provinces, thereby promoting more even development.
Europe and Central Asia	
Armenia Structural Adjustment Loan (IDA)	This loan will ensure that the most vulnerable groups will be protected during the adjustment process through better targeting of child allowances, accompanied by an increase in the level of the allowances. A group to monitor the targeting of humanitarian assistance will also be established. Moreover, improved primary health care delivery, including low-cost treatment for the poor, and prevention of further deterioration of educational facilities, and a program of stipends for needy students, will benefit vulnerable groups.
Azerbaijan Rehabilitation Credit (IDA)	With support from this loan, consumer subsidies will be replaced with targeted cash compensation schemes; pensions will be provided at an income replacement level that is adequate; and the unemployment insurance scheme will be streamlined by such measures as limiting public works programs to only the long-term unemployed while increasing the level of unemployment benefits to the minimum pension level. These measures would better ensure more adequate assistance to the most vulnerable groups while still keeping within the tight budgetary constraints.
Georgia Structural Adjustment Credit (IDA)	This credit will support increasing the share of public expenditures for health and education in the 1996 state budget to about 7 percent for health and 8 percent for education. It will also help reform the social safety net by targeting child allowances to families with at least two children and by increasing the level of social benefits and pensions in real terms.
Russian Federation Coal Sector Restructuring (IBRD)	The aim of this loan is to support a socially sustainable restructuring of the coal sector, including the provision of a social safety net system for redundant workers. It will be accomplished through the financing of pilot community support and employment programs for coal communities; the financing of expenditures for social protection of mine workers, former mine workers, and their dependents; and the financing of the development, replacement, rehabilitation, maintenance, and operation of social assets divested from the coal sector to local governments.

Loan or credit	*Poverty-related objectives*
Latin America and the Caribbean	
Argentina Health Insurance Reform Loans (IBRD)	In addition to supporting health insurance reforms by increasing the efficiency and internal equity of payroll-tax-financed health insurance, this loan will reallocate insurance premiums that are collected in a national pool to low-income families. This reform will benefit over 3 million persons with average monthly insurance contributions of less than US$18, including half a million farm laborers' families living below the poverty line.
Middle East and North Africa	
Algeria Structural Adjustment Loan (IBRD)	This loan will include measures to strengthen and support the full implementation of three new social safety net programs designed to better target the poor: (i) a program of aid to the elderly and handicapped (AFS) that provides monthly income support to the poorer elderly and handicapped; (ii) a program providing short-term employment (PAIG) that is self-targeted to the able-bodied poor through the provision of wages that are half the minimum wage and that also targets work sites in poorer regions; and (iii) a program of protection for workers laid off for economic reasons that is funded through a payroll tax.
Yemen Economic Recovery Loan (IDA)	By reorienting expenditures to primary health and primary and secondary education within the respective sectors and by maintaining, at a minimum, expenditures on health and education as a percentage of GDP at the 1995 level, this loan will protect expenditures in sectors that provide essential services to poorer groups.
South Asia None	
Sub-Saharan Africa	
Cameroon Structural Adjustment Credit (IDA)	The public finance management reforms included in this loan are aimed at increasing the share of recurrent and capital expenditures on key development sectors such as health, education, and agriculture as well as providing support for specific poverty reduction efforts.
Chad Structural Adjustment Program (IDA)	This loan will support measures to sustain and expand the coverage of public services, particularly those relating to primary health and education. Resources available for priority activities in health and nutrition, primary education, agricultural extension, and infrastructure maintenance will be increased to 62 percent of total public expenditures. Improved cotton producer pricing will also help the small-scale cotton farmers. Moreover, a monitoring system will be established to track the impact of policy changes on human resource development and poverty reduction.
Côte d'Ivoire Agricultural Sector Adjustment Program (IDA)	As a result of lowering the export taxes on cocoa and coffee, as well as curbing the role of the Agricultural Stabilization Fund in cocoa and coffee marketing, smallholder farmers will benefit more directly from the higher international prices for these products. A 40 percent reduction in the Coffee/Cocoa Marketing Board's expenditures, which contribute directly to the high cost of cocoa and coffee production, will also benefit small farmers. The elimination of import quotas for rice, a staple food of the poor, will lower prices and help reduce urban poverty. Finally, removal of nontariff barriers and price controls on agricultural tools and wheat flour will ultimately benefit the poor.

Loan or credit	*Poverty-related objectives*
Malawi Fiscal Restructuring and Deregulation Program (IDA)	By helping to raise allocations in pro-poor expenditure categories such as primary education and health clinics, encouraging the participation of the poor in economic activities through deregulation, and removing the remaining pricing and marketing constraints on smallholder agriculture, this loan will support human resource development and improve economic opportunities for the poor.
Mali Economic Management Credit (IDA)	This credit will support the reallocation of expenditures to sectors such as primary education, health, and agricultural extension and road maintenance, which will benefit the poor. Expenditures within these sectors will also be restructured away from salary spending toward increasing essential supplies and maintenance.
Togo Economic Recovery and Adjustment Credit (IDA)	To combat increasing poverty and significant deterioration of basic social services, this credit will help focus budgetary allocations on priority social sector expenditures. It will support increasing the share of government expenditures on health to levels of 10.9 percent in 1996, 11.6 percent in 1997, and 12.6 percent in 1998. For education the share of government expenditures was expected to reach 28.3 percent in 1996, and rise annually by 1 percentage point thereafter. Expenditures within these sectors will be oriented toward rehabilitating existing infrastructure and improving the delivery of essential services in primary education and basic health care.
Zambia Economic Recovery and Investment Promotion Credit (IDA)	This credit will have a positive impact on the poor by shifting the terms of trade in favor of rural areas where the poor live, pursuing policies that will ensure lower inflation in order to safeguard poor consumers and low wage earners; protecting total allocations and budget releases for social sectors (education, health, safety nets, and water and sanitation) at 33 percent of total allocations; and reforming the social security system to release funds for poverty reduction programs.

Table E-4: Poverty-focused SALs and SECALs, fiscal 1997

Loan or credit	*Poverty-related objectives*
Europe and Central Asia	
Bulgaria Critical Imports Rehabilitation Loan (IBRD)	This operation will help curb shortages of vital commodities and improve the targeting of safety net programs. Key measures aim to: (i) establish better targeting mechanisms for the minimum income guarantee and utility voucher programs for households with young children; (ii) improve targeting of child allowances and medical support programs; (iii) improve service delivery by social care institutions and outreach programs with the help of NGOs and intermunicipal institutions; (iv) extend severance payments to cover about 60,000 laid-off workers; (v) increase real pensions resulting from a decree on early retirement categories; (vi) clear pharmaceuticals arrears, and (vii) secure new supplies of critical medicines.
Rehabilitation Loan (IBRD)	The initial phase of the government's stabilization and reform program will be supported by a social safety net program that will retrain and redirect laid-off workers, and provide severance payments to retrenched workers who lost their jobs as a result of the public enterprise and banking reforms.
Kyrgyz Republic Public Sector Resource Management Adjustment Credit (IDA)	The reforms proposed under this credit will help to ensure the provision of essential health and education services in the most impoverished parts of the country by strengthening the budgetary control mechanism and by establishing a categorical grants system to ensure adequate financing to these sectors at the local level. Before the second tranche is released, the government must ensure that the budget retains the main intergovernmental components, the fixed 35 percent tax sharing rates, and the categorical grants for health and education.
Latvia Structural Adjustment Loan (IBRD)	This loan aims to improve the government's management of public resources by reforming local finances to improve the delivery and cost-effectiveness of health, education, and social assistance services—thus benefiting the poor. In addition, the social insurance reform program will establish an independent administrative agency to manage all funds related to unemployment, work injury, pensions, sickness, and maternity. As a condition for the second tranche release, the government must allocate a portion of social tax revenues to the social insurance fund and present a timetable for revising the revenues and expenditures of local and intergovernmental transfers to the social sectors.
FYR Macedonia Structural Adjustment Loan and Credit (IBRD/IDA)	The proposed operation will assist the government in removing existing protection and subsidies in agriculture, which will lead to more competitive and stable markets and improve the well-being of the rural population. It is expected that the prices of staple foods will fall, helping to mitigate some of the adverse effects of unemployment created by privatization and the transition to a market economy. This credit will also provide income support and labor market services, including placement, retraining, and small business development for individuals who were laid off. A condition for the second tranche release calls for the elimination of arrears in payments for social assistance and unemployment benefits.
Romania Agriculture Sector Adjustment Loan (IBRD)	This operation will support the government in eliminating price controls for pork, poultry, milk, and wheat products, and in mitigating the social impact of these measures by providing temporary financial compensation to low-income households. In addition, while the previous recipients of subsidies were state farms, the new scheme will supply vouchers for inputs (such as fertilizer, seeds, and mechanical services) directly to small farmers. Legal and regulatory reforms will provide private individuals with ownership rights to land. The second tranche conditions require the government to institute the voucher scheme for small farmers.

Loan or credit	*Poverty-related objectives*
Social Protection Adjustment Loan (IBRD)	This loan is intended to help individuals who are adversely affected by the macroeconomic stabilization and structural reform programs by: (i) increasing the level of universal child allowances to poor households with many children, (ii) indexing low agricultural pensions to inflation, (iii) indexing benefits in the Minimum Income Guarantee Scheme to maintain their levels, (iv) broadening social feeding programs and community soup kitchens, (v) continuing to support special student scholarships, (vi) establishing lifeline electricity rates for households with low electricity consumption, and (vii) providing temporary income support to low-income earners to buffer the effects of the elimination of the bread subsidy.
Russian Federation Social Protection Adjustment Loan (IBRD)	To help safeguard the government's macroeconomic targets, emphasis will be on efficiency improvements in the safety net programs and in the reallocation of federal and subfederal resources within existing programs toward the poorest groups. These measures include ensuring minimum income security and protection for the elderly; providing training, counseling, and benefit provisions for all laid-off workers; and improving the targeting of sickness, maternity benefits, and child allowances. Before the release of the second and third tranches, the government must maintain a federal guarantee of monthly child allowances, at minimum to age three, partially subsidize sick leave to employers, and complete a review of provisions relating to sickness benefits and maternity leave policies. Indicators for monitoring poverty and program participation will be incorporated into future household surveys.
Tajikistan Agricultural Recovery and Social Protection Credit (IDA)	This credit will enhance the government's reform efforts by: (i) ensuring that health and education expenditures are allocated toward the provision of urgently needed basic drugs and textbooks; (ii) identifying the neediest by means of household survey data and improving the targeting of bread and child allowances to these populations; (iii) supporting a farm-restructuring program, including collective access to land, intended to help low-income households in rural areas; and; (iv) restructuring pension and social insurance programs by targeting and distributing benefits to eligible pensioners and creating a more centralized fund to ensure interregional unemployment transfers to distressed areas.
Ukraine Agriculture Sector Adjustment Loan (IBRD)	In addition to increasing input flows to farmers, expanding agricultural exports, and enhancing rural income and employment, this program will provide increased access to land for rural pensioners and farm workers. Through the elimination of a six-year moratorium on the sale of land and removal of certain restrictions, land registration will be facilitated, allowing beneficiaries the right to sell and lease land parcels. The second tranche release requires the issuance of land share certificates to at least 75 percent of the entitled beneficiaries. The issuance of land titles and the degree to which collateral is used to secure loans will be monitored.
Coal Sector Adjustment Loan (IBRD)	This loan will support the restructuring of the coal sector through the reduction and redirection of subsidies from the closure of unviable mines toward more productive, profitable ones. In addition, proposed programs will help mitigate the social impact related to mine closures. These include unemployment and disability benefits, training and employment services, and provision of basic social services. Before the second tranche is released, the government will have to close inefficient mines, provide cash benefits and free coal distribution to ex-mine workers, and continue to allow laid-off mine workers access to social services. Mechanisms for monitoring the social impact and public participation are being reinforced to ensure that social protection programs reach the intended beneficiaries.

Loan or credit	*Poverty-related objectives*
Sub-Saharan Africa	
Chad Second Structural Adjustment Credit (IDA)	Many poor farmers dependent on cotton production are expected to benefit from the proposed reforms, which are intended to raise the share of world prices going to farmers, lower prices farmers pay for farm implements, and reduce real consumer prices for sugar. This operation will also help the government reallocate public expenditures toward priority sectors (health, education, transport, social affairs) and increase the number of primary school teachers and health service workers. The reintegration of demobilized soldiers into civilian life will be supported through a pilot program that includes food provision, employment services, housing assistance, and basic health services. Poverty monitoring capabilities will be supported as part of the government's antipoverty agenda.
Madagascar Structural Adjustment Credit (IDA)	This credit supports the government's restructuring of public expenditures to increase investments in basic and preventive health care, primary education, and public security. The government's efforts to reduce poverty will be complemented by: (i) a revision of laws and regulations to make property rights and land tenure more secure; (ii) greater access of farmers, artisans, and traders to entities providing savings, mutual credit, and banking services; and (iii) the development of microenterprises and occupational interest groups.
Mozambique Third Economic Recovery Credit (IDA)	As part of this operation, fiscal reform aims to improve the management of tariff and tax revenues and increase the availability of resources for health and education in rural areas. The credit will also support the government's declared policy to phase out the export tax on raw cashews by the year 2000, a measure that will substantially benefit small farmers, especially women. The poverty-gender impact of cashew liberalization will be monitored.
Niger Public Sector Adjustment Credit (IDA)	The proposed credit will support the government's public expenditure reform, allowing a reallocation of funds to improve the delivery of basic preventive health and education services nationwide, road maintenance and infrastructure, and clean water in urban centers. Simplification of the legislative and regulatory framework of the Rural Code will seek to improve herders' access to scarce arable land.
Tanzania Structural Adjustment Credit (IDA)	With support from this credit, the government will be able to increase the share of public funds allocated to health and education, and ensure the poor's access to better and more efficient social services. Reforms in the higher education budget and increased cost recovery in district-level hospitals are expected to provide more resources for basic education and preventive health services. Prior to the social sector tranche release, the government will undertake an action plan that aims to: redistribute resources and teachers to deficit districts; shift management of primary schools and health services to district authorities; and reduce mortality due to malaria.
Uganda Third Structural Adjustment Credit (IDA)	The credit will support the government's goals to increase recurrent budget allocations to basic social services. Management of public expenditures will be improved, as will service delivery to the poor in primary health care and education, agricultural extension, road maintenance, and water supply. The release of the second tranche is tied to: (i) implementing integrated sector programming and budgeting (education, health, and agriculture) in conjunction with various districts; and (ii) increasing budgetary allocations for primary health and education and for agricultural research and extension.

Loan or credit	*Poverty-related objectives*
Zambia Second Economic and Social Adjustment Credit (IDA)	As part of this credit, the government will resume the implementation of the Lands Act of 1995, which seeks to simplify and speed the process of converting customary land into leasehold for new investors and existing farmers, while safeguarding against possible loss of smallholders' rights. This operation also supports the titling of property in informal urban settlements, which would enable the inhabitants to use the land for production purposes or as collateral. Increased public expenditures will go toward priority areas such as drugs and clinics, books and study materials, national food and nutrition programs, and chemicals for water treatment. Prior to the second tranche release, the following must be implemented: all aspects of the Lands Act of 1995, all goals related to the recognition and declaration of informal urban settlements, and; the allocation of at least 35 percent of noninterest domestic expenditures to social services. A monitoring system, including a poverty monitoring survey, will be set up to measure progress in meeting the government's goals.

Annex F Poverty-Focused ERLs, Fiscal 1996 and 1997

Emergency recovery loans (ERLs) are designed to provide immediate assistance after a major emergency such as war, civil disturbance or natural disaster. They are usually identified, prepared, approved and completed within a short period, normally three years. They are processed rapidly and often disbursed quickly. Although ERLs are considered to be projects and, by convention, are included in the Bank's investment lending total, they differ from regular investment operations in objective and format. Some ERLs provide critical balance of payments support and help lay the foundation for implementing economic reforms, others support programs to reform social sector expenditures and safety nets. By the very concept of their design, it is not feasible to apply the poverty criteria for investment lending to ERLs. The nature of ERLs in fact resembles adjustment more than investment operations and thus the poverty criteria established for adjustment operations also apply to them. Tables F-1 and F-2 describe the poverty-focused ERLs for fiscal 1996 and 1997.

Table F-1: Poverty-focused ERLs, fiscal 1996

Loan or credit	*Poverty-related objective*
Middle East and North Africa	
Morocco	
Emergency Drought Recovery Project (IBRD)	This project will mitigate the hardship suffered by the poorer, small farmers hardest hit by the drought. This will be accomplished through the construction of wells, boreholes, and rain harvesting points and the rehabilitation of springs in the most severely affected areas and construction of roads in drought-prone areas with limited access.

Table F-2: Poverty-focused ERLs, fiscal 1997

Loan or credit	*Poverty-related objectives*
Europe and Central Asia	
Bosnia and Herzegovina	
Emergency Housing Repair Project (IDA)	Assistance will be provided to people who are adversely affected by loss of housing or by poor living conditions due to war damage. Urgent housing repairs to both publicly and privately owned housing will provide about 35,000 person-months of employment. Project activities will give priority to the displaced, widowed heads of households, and disabled veterans of the war.
Emergency Demobilization and Reintegration Project (IDA)	Demobilized soldiers, returning refugees, and other vulnerable groups will be reintegrated into productive jobs in the civilian economy, helping to promote economic growth and political stability and to reduce the burden on families and dependency on social assistance. Individuals will receive education, training, and counseling to meet employment needs.
Essential Hospital Services (IDA)	This operation will contribute to poverty reduction by mitigating the suffering and disease burden of vulnerable groups and by increasing the potential productivity of the people most affected by the war. It will introduce and ensure health financing mechanisms for the provision of basic services, regionally specified coverage, and private financing to cover additional services.
Emergency Public Works and Employment Project (IDA)	About 100,000 person months of labor intensive employment will be created for those unemployed as a result of the war, who will work on the cleanup of war-damaged public property and assets and the rehabilitation of small-scale public infrastructure.
Sub-Saharan Africa	
Rwanda	
Emergency Reintegration and Recovery Credit (IDA)	This credit addresses the settlement and reintegration needs of populations affected by war in rural and urban areas. Government resources will be directed toward the provision of basic social services, particularly in health, education, and water and sanitation. Support to the agricultural sector will be provided by constructing rural housing for refugees and rehabilitating production and transport infrastructure.

Annex G Annual Lending to Selected Sectors, Fiscal 1996 and 1997

Although all World Bank lending is intended to ultimately help reduce poverty, lending to certain sectors supports more directly government efforts to reduce poverty. The human capital development, agriculture, and water supply and sanitation sectors contain a higher percentage of projects that include elements directly targeted to the poor. As shown in figure G-1, average lending to the human capital development sectors between the early 1980s and fiscal 1997 increased more than sixfold in dollar terms. The share of total Bank lending to these sectors increased from an average of 5 percent during fiscal 1980–82 to an average of 20 percent during fiscal 1995–97 (see table G-1). Within the human capital development sector, there has been a steady increase in the volume of lending allocated to population, health, and nutrition and the social sector. Although the volume of lending for education has fluctuated slightly, the overall trend shows about a threefold increase during fiscal 1980–97. Human capital development accounts for more than a quarter of IDA's total lending, up from one-seventh in the early 1980s.

In recent years the share of lending to the human capital development sectors has increased from an average of 15 percent of total lending during fiscal 1992–94 to 20 percent in fiscal 1995–97. During the same period, the share of lending for agriculture and rural development dropped only slightly, from an average of 14 percent to 12 percent, and the share for water supply and sanitation declined somewhat, from an average of 5 percent to 4 percent. Table G-2 provides annual data for selected sectors for the last six fiscal years.

Figure G-1: Trends in lending for human capital development, fiscal years 1980–97

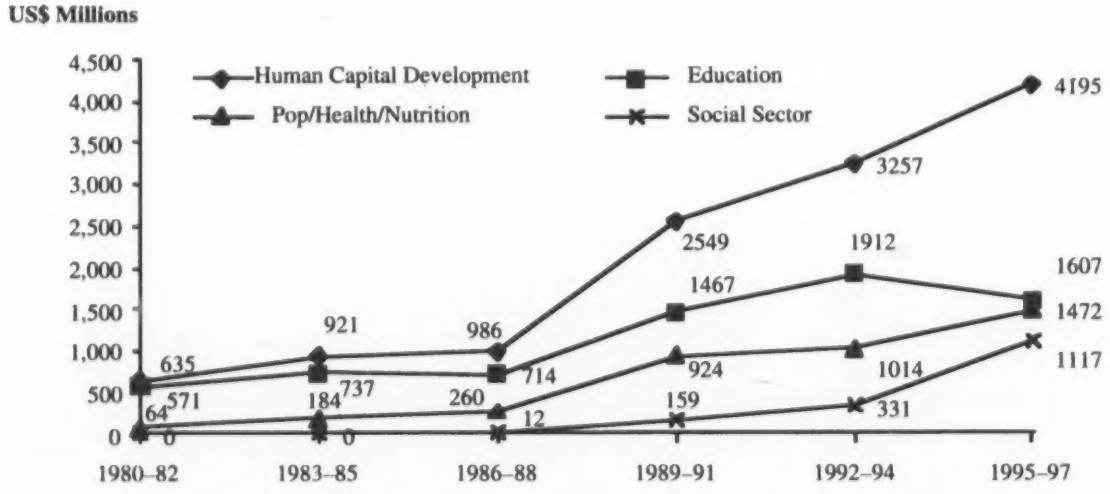

Table G-1: Average annual lending to selected sectors, fiscal 1980–97

	1980–82	*1983–85*	*1986–88*	*1989–91*	*1992–94*	*1995–97*
World Bank (IBRD and IDA) lending						
(US$ millions)						
Human capital development	634.9	921.0	986.3	2,549.2	3,256.9	4,195.1
Education	571.1	736.9	714.4	1,466.7	1,912.1	1,606.6
Population, health, and nutrition	63.8	184.1	259.5	923.6	1,014.2	1,471.9
Social sector[a]	0.0	0.0	12.3	158.9	330.5	1,116.5
Agriculture	3,517.9	3,663.9	3,989.9	3,304.7	3,195.8	2,610.2
Water supply and sanitation	533.6	739.2		966.9	1,015.2	758.0
Total	12,262.9	14,794.6	17,737.8	21,584.7	22,079.2	21,006.9
As share of total (percent)						
Human capital development	5	6	6	12	15	20
Agriculture[b]	29	25	22	15	14	12
Water supply and sanitation	4	5	4	4	5	4
IDA lending						
(US$ millions)						
Human capital development	217.1	382.2	414.6	1,260.4	1,560.8	1,680.5
Education	183.4	294.7	245.7	713.9	741.6	618.7
Population, health, and nutrition	33.7	87.5	156.5	428.0	561.0	741.2
Social sector[a]	0.0	0.0	12.3	118.4	258.2	320.6
Agriculture	1,406.7	1,379.4	1,190.6	1,532.5	1,274.4	1,064.3
Water supply and sanitation	108.9	138.0	133.6	296.2	265.3	230.8
Total	3,335.3	3,314.6	3,694.8	5,583.0	6,631.1	5,718.4
As share of total (percent)						
Human capital development	7	12	11	23	24	29
Agriculture[b]	42	42	32	27	19	19
Water supply and sanitation	3	4	4	5	4	4

Note: The data are for average annual lending during the three-year period indicated. The World Bank's fiscal year runs from July 1 of the previous year to June 30 of the year indicated. Since the first progress report on poverty was issued in fiscal 1992, three-year moving averages have been reported. One reason for using a three-year average is to avoid overemphasizing the importance of year-to-year fluctuations in the reporting of lending to individual sectors. The sectors do not account for all poverty-focused lending. Projects in such sectors as urban development and transport also have components designed to help reduce poverty.
Because of a recent sector reclassification of projects, some numbers may differ from those reported in earlier tables.
a. Social sector lending includes employment, social assistance, social insurance, and social investment funds.
b. The decline in the share for agriculture reflects several trends—some rural investments are now accounted for in other sectors such as infrastructure and human capital development and address such issues as privatization, natural resources management, and projects that target women, which have involved implementing pilot projects of small loan amounts.

Table G-2: Annual lending to selected sectors, fiscal 1992–97

	1992	1993	1994	1995	1996	1997
World Bank (IBRD and IDA) lending						
(US$ millions)						
Human capital development	2,715.4	3,814.3	3,241.0	4,204.1	5,053.6	3,327.5
Education	1,694.7	1,883.7	2,158.0	2,096.8	1,705.7	1,017.4
Population, health, and nutrition	922.1	1,234.9	885.7	1,122.5	2,353.4	939.9
Social Sector	98.6	695.7	197.3	984.8	994.5	1,370.2
Agriculture	3,209.9	2,825.8	3,551.8	2,205.3	2,078.9	3,546.5
Water supply and sanitation	786.4	1,283.9	975.2	981.5	609.8	682.8
Total	21,705.7	23,695.9	20,836.0	22,521.8	21,352.2	19,146.7
As share of total (percent)						
Human capital development	13	16	16	19	24	17
Agriculture	15	12	17	10	10	19
Water supply and sanitation	4	5	5	4	3	4
IDA lending						
(US$ millions)						
Human capital development	1,297.8	2,139.5	1,245.1	1,828.2	2,197.6	1,015.7
Education	584.1	982.7	658.1	816.2	784.9	255.1
Population, health, and nutrition	615.1	548.1	519.7	671.2	858.2	694.1
Social sector	98.6	608.7	67.3	340.8	554.5	66.5
Agriculture	1,219.2	1,084.0	1,520.0	1,352.0	1,105.1	735.9
Water supply and sanitation	297.4	395.4	103.2	309.2	80.7	302.4
Total	6,549.7	6,751.4	6,592.1	5,669.2	6,864.1	4,621.8
As share of total (percent)						
Human Capital Development	20	32	19	32	32	22
Agriculture [a]	19	16	23	24	16	16
Water supply and sanitation	5	6	2	5	1	7

Note: The World Bank's fiscal year runs from July 1 of the previous year to June 30 of the year indicated. These sectors do not account for all poverty-focused lending. Projects in such other sectors as the urban development and transport also have components designed to help reduce poverty. See *World Bank Annual Report 1997* for further details on sector lending.
Because of a recent sector reclassification of projects, some numbers may differ from those reported in earlier tables.
a. This decline in share reflects several trends—some rural investments are now accounted for in other sectors such as infrastructure and human resources development and address such issues as privatization, natural resources management, and projects that target women, which have involved implementing pilot projects of small loan amounts.

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Annex H Regional Plans for Poverty Monitoring in Key IDA Borrowers

Europe and Central Asia

Albania

As the recent draft of the Poverty Assessment Review for Albania points out, a robust analysis of the magnitude and characteristics of the population differentiated by income status and other essential welfare attributes could not be conducted due to the lack of data. Albania has yet to mount a nationwide household survey that provides information on household income and expenditures and other important variables. A household survey was undertaken in 1993 and 1994, but its coverage was limited to the capital city, Tirana. A household survey covering rural and urban areas but excluding the capital city, was implemented in 1996. Results from the survey will inform the social assessment and the World Bank program in the social sectors. Thus, an important objective for poverty monitoring efforts in Albania—and a key recommendation of the poverty assessments—is for the government to launch a nationwide survey of household incomes and expenditures to help quantify the extent of poverty, characterize the poor, understand better the new sources of income, and aid in the design of a poverty alleviation strategy. Proposed discussions on the draft Poverty Assessment Report in early 1997 will provide an opportunity to discuss the planned poverty monitoring strategy in more detail.

The Albanian government intends to carry out a nationwide household survey in the near future. The next step would be for the government, with the assistance of the Institute for Statistics (INSTAT), to develop a poverty profile based on the survey that provides information on the country's various regions. This work is expected to be completed in 1997. A third step would be to determine a nationally applicable welfare threshold that could be used to improve the targeting of the social assistance program started in 1993. Consultations with various groups in Albania, including other donors, are also held periodically to monitor social conditions in the country and provide input into the Bank's country assistance strategy.

Armenia

Since 1992, poverty has become widespread in Armenia, and inequities have grown rapidly. Surveys in 1994–95 revealed unusual characteristics of poverty. No strong correlation was found between poverty and age, gender, unemployment, level of education, family size, stock of consumer goods, or housing attributes. In rural areas, land privatization has provided a safety net for the majority of families. The factors most strongly related to poverty, especially in urban areas, are the lack of extended family support and of private remittances or informal sector earnings, which are, in any event, difficult to measure and fluctuate considerably. Location (particularly in the earthquake zones) was one of the strongest correlates of poverty. From a practical policy perspective, one of the most striking outcomes of the survey results was the difficulty of identifying useful poverty correlates for Armenia.

Given Armenia's limited resources and the absence of strong correlates of poverty, the Bank does not think that targeting of social transfers can go very far, at least not for the next three or four years. The main concern at present is ensuring that the poor maintain access to basic education and health services. This will be a step toward preventing transitional poverty from becoming more structural. A health project approved in July 1997 and an education project scheduled to be presented to the World Bank's Executive Board in November 1997 (see below) are intended to meet this objective.

Considering the rapidly changing conditions in Armenia, it is likely that the poverty profile will change quickly with the restructuring of the economy, posing a strong challenge for poverty monitoring. A

new survey, described below, will provide an updated snapshot of poverty, enabling modifications in the poverty alleviation strategy, if necessary.

The Armenia poverty assessment was prepared during fiscal 1996 (it is dated June 10, 1996). The analysis in the assessment was based on a pilot household expenditure survey conducted in 1995 by the State Department of Statistics and the Department of Sociology of Yerevan State University and on a qualitative assessment conducted by an international consultant in collaboration with the Yerevan Institute of Ethnography. Additional research included a study of the effect of land privatization on the poor and a study of the contribution of the Armenian diaspora to the social sectors. In November 1996 the World Bank participated in the National Conference on Poverty in Armenia organized by the United Nations Development Programme (UNDP) to disseminate the findings of the poverty assessment and the UNDP's *Human Development Report*. The central theme of the conference was poverty measurement issues in Armenia.

A study on social protection, in the pipeline for fiscal 1998, will use the results of the new household expenditure survey financed under the Social Investment Fund Project to discuss the incidence of social protection programs and some social services on the poor.

The IDA-financed Social Investment Fund Project is supporting a capacity building program of the Department of Social Statistics in the Ministry of Statistics. A program of living standards monitoring will provide support for two surveys to be carried out in the period 1996 to 1999. The first of these will be a rapid, single-visit survey with a large sample. It will cover household revenues and expenditures, health and education, employment, and access to public services and will include some qualitative questions on cultural and social issues. The second survey will cover 12 months and will measure seasonal variations in income and expenditure. The questionnaire will be comprehensive and will allow for an in-depth analysis of the determinants of poverty. A small study fund has been set up to hire local consultants from the university and local research institutions to support the studies necessary to inform policy decisions.

As part of the health and education projects, various mechanisms to support access by the poor to social services will be piloted and monitored. They will include close monitoring of the PAROS program for the distribution of humanitarian assistance (in collaboration with the U.S. Agency for International Development, USAID), targeting of poor children at the school level for textbook provision, screening at the health facility level, and introduction of mechanisms for risk-pooling at the health facility level. Monitoring of health programs is done in collaboration with UNICEF.

Other than the support provided under the Social Investment Fund Project, no resources are available through the World Bank for poverty monitoring activities in Armenia.

Georgia

In the absence of national household surveys, much less is known about poverty in Georgia than in Armenia. The World Bank expects that, as in Armenia, rural families are better off than urban households, but there are still no estimates of the incidence or the depth of poverty. The Bank has carried out two informal surveys in the capital, Tblisi, to provide a first examination of poverty. It is also financing a more detailed national household survey that is being implemented jointly with Statistics Canada. The data are now available and will be analyzed during the fall of 1997. These surveys, along with a qualitative assessment, will provide the basis for a poverty assessment. Assuming that data collection and processing go smoothly, the poverty assessment should be finalized in 1998. The poverty assessment will also discuss future poverty-monitoring efforts to be undertaken by the government.

Kyrgyz Republic

Poverty existed in the Kyrgyz Republic prior to independence in 1991 and has worsened since then. Much of the poverty is inherited and structural, but the economic decline since independence has increased its incidence. The Kyrgyz Multipurpose Poverty Survey (KMPS) conducted in late 1993 indicates about 40 percent of households (about 45 percent of the population) are poor, with about 25 percent of households (about 30 percent of the population) classed as severely poor. The results of a survey done in the spring of 1996 indicate that about 50 percent of the population is poor and that of this number, 18 percent is in extreme poverty. Malnutrition has also increased.

A poverty assessment was completed in 1995 on the basis of the 1993 KMPS. A summary poverty assessment update is planned for fiscal 1998. The National Committee for Statistics (Natstatkom) and the Research Triangle Institute have prepared and dis-

seminated a poverty profile based on the spring 1996 survey, and preliminary results from a fall 1996 survey are under review. Another survey is now under way and its results are anticipated in early 1998.

The Social Safety Net Project supports the development of Natkomstat's capacity to conduct household surveys in order to monitor changes in the distribution of income and wealth, patterns of employment and unemployment, and the level and dimensions of poverty in the country and to provide information to other government ministries for better targeting of assistance. The project includes funding for technical assistance to help Natkomstat develop proper sampling procedures and questionnaires, train interviewers, and implement proper data review, data entry, coding, and generation of reports and tables for use by other ministries.

Under the Social Safety Net Project, both Natkomstat staff and selected staff of social sector ministries were trained in data analysis. A Data Users Committee with relevant ministries represented was established to help identify key areas of interest that should be addressed by the new survey. The members of the committee are expected to be the main users of the analysis and results of the new survey. The 1993 sample survey was revised to include a total of 2,900 households to give greater precision at the oblast (provincial) level. The questionnaire was revised substantially between the spring and fall surveys. The current survey, which has been further revised to more closely resemble an LSMS survey, includes issues related to the agricultural sector and fertility.

South Asia

Bangladesh

Bangladesh is part of the long South Asian tradition of fielding household surveys on a range of diverse topics. It inherited a number of such surveys from Pakistan at independence, and several new ones were started after 1971. The first post-independence household expenditure survey (HES) dates back to 1974. The overriding concern with poverty reduction in Bangladesh has produced a long-standing interest in and public discussion of poverty measurement issues in both official and academic circles. Poverty measurement has been politically somewhat sensitive; rival political factions have used measures of poverty incidence and their time trends as a way of summarily condemning the performance of the party in power. In this environment, gaining access to household level data has been very difficult, and there have been huge delays in making even the summary results public.

The Bank's last poverty assessment for Bangladesh, completed in January 1990, discussed the effect of public expenditures on reducing poverty. In 1994 the World Bank's South Asia Region put in place a collaborative capacity-building initiative to improve the basic national data for poverty monitoring in Bangladesh. This has led to long-term cooperation between the Bangladesh Bureau of Statistics (BBS) and the Bank, centered initially on the design and field procedures for the 1995/96 HES. The Asian Development Bank (ADB) has provided grant funds for this cooperative arrangement.

The program has four main objectives: to enhance the BBS's institutional capacity to field complex, integrated household surveys using modern, computer-based field data collection and validation; to place the official methodology used for poverty measurement and monitoring on a more robust analytical basis that is well suited for comparisons over time and space; to bring about a change in the official BBS policy of limited or no access to the household level data for analysts in Bangladesh and abroad; and to help shift attention away from generating more survey data for poverty measurement (where much duplication exists) to the more relevant analysis of the data with a view to feeding back the results into improved policy, program, and evaluation design. There is an important role for coordination among the government and donors on the final objective.

This long-term process of confidence building and collaborative work was specifically designed to overcome the fundamental problem of data inaccessibility that poverty monitoring efforts often encounter. This design also takes into account the existence of a strong tradition of household surveys in Bangladesh and builds on the previous HES surveys while maintaining continuity of the core expenditure module. Finally, by urging greater data accessibility it hopes to involve a greater number of local and overseas researchers in poverty analysis in Bangladesh and to improve data quality in response to greater outside demand and scrutiny of the data.

Besides including field-based LSMS-type data entry, the 1995/96 HES also integrated a rural community module and an education module with the preexisting module for household expenditures. In May 1997, in a joint regional program with Nepal's Central Bureau of Statistics, Bank staff provided training for BBS staff on the analytical tools for poverty analy-

sis. The BBS has produced a basic summary report from the survey data much earlier than was the case with previous surveys, and it expects to progressively reduce the elapsed time as it gains experience with computer-based poverty analysis. It has also decided to shift to a more robust set of poverty measures. Most important, the BBS has now adopted an official policy of access to household-level data for bona fide researchers.

As part of this initiative, the Bank has already received unprecedented access to household-level data from four previous HES surveys—those for 1983/84, 1985/86, 1988/89, and 1991/92, and to the preliminary 1995/96 data. Bank operational and research staff are engaged in a series of studies using these data which is designed both to increase understanding of the correlates of poverty and to ground sector strategies in this better understanding. These studies, together with a fuller analysis of the 1995/96 HES data, will form the basis for a 1998 poverty assessment update.

India

India has a 40-year history of collecting survey data on household expenditures, access to social services, safety net programs, and employment levels, and a vast and often illustrious literature on poverty. But, in contrast to South Asia's other IDA countries, since the mid-1980s there has been little real progress—at least on the data front—in sharing widely this wealth of information. Furthermore, the government has been reluctant to accept outside assistance to strengthen capacity or update technology used in the survey system, particularly for the National Sample Survey Organization (NSSO). The NSSO is responsible for implementing the National Sample Survey (NSS), which collects information on consumer expenditure and employment levels for use in monitoring poverty. The problems faced by the NSS include slow and outdated data collection and data entry techniques and severe budget constraints. The time lag between the collection of data and the publication of survey statistics by the NSSO currently averages three to four years; for example, complete results of the 1993/94 NSS were released in 1997. The NSSO rarely releases unit record data to outside research institutes, and budget and other constraints limit the amount of analysis it actually does and publishes. The statistical situation in Indonesia, to name one example, stands in stark contrast to that in India: Indonesia processes massive amounts of household survey data within six to nine months, it has recently improved household questionnaires, and it readily makes information available to local and international researchers.

The Bank has discussed a potential program of support to the Indian statistical system. At present, the government has accepted support for better national accounts statistics but remains unwilling to accept similar kinds of support for better data to underpin poverty measurement—that is, support to the NSSO.

On poverty measurement, the recommendations of an expert group formed by the Planning Commission in 1993 to improve the methodology for constructing poverty lines have now been accepted.

A poverty assessment update for India was published in 1997. The Bank has been working on updating the poverty assessment since 1994 but has had some problems in gaining access to the unit record data to update poverty estimates or the poverty profile. Important changes have occurred in the Indian economy since the early 1990s and it is essential that IDA and the government learn more about what has happened to poverty during the recent period of economic reforms. The government is aware of the need to develop monitorable short-term indicators of changes in poverty, but progress toward improving the reliability of the necessary data (for example, rural wage rates and wage rates of unskilled workers in urban areas) and the time lag in their availability has been slow. Although some progress has been made in measuring and monitoring poverty in India, much remains to be done.

Nepal

Nepal's statistical system and data collection capacities are less developed than those in other South Asian countries, but significant progress has been made recently in developing data and capacity on poverty monitoring. An LSMS project was initiated in mid-1994 with the objectives of updating poverty estimates for Nepal and building institutional capacity within the Central Bureau of Statistics (CBS) to undertake regular household surveys. The Nepal Living Standards Survey (NLSS) was successfully completed in June 1996, and the data were made available to the public right away. The CBS published two volumes containing results on living standards. Bank staff, in collaboration with CBS and local researchers, developed updated estimates of poverty (the previous estimates were based on a 1984/85 survey) and are currently analyzing the determinants of poverty. Several independent studies using the NLSS data

have been completed or are under way. Capacity to design and implement household surveys, as well as to analyze the data, has been strengthened significantly.

On the basis of this data set, Bank staff are preparing an update to the 1991 poverty assessment which is scheduled to be completed in fiscal 1998. The poverty assessment update will look at the current situation, trends over time, and the determinants of poverty. These results will be combined with those from participatory poverty assessments funded by the U.K. Overseas Development Administration, and a participatory process will be followed to arrive at a set of policy recommendations that reflects a broad national consensus.

Although progress has been made, further efforts are required to set up a poverty-monitoring system. As part of this effort, the Bank in May 1997 organized a training program on data management and poverty monitoring for officials of the CBS, the National Planning Commission, and the Bangladeshi Bureau of Statistics. Follow-up activities are under discussion.

Pakistan

Like Bangladesh, Pakistan has an extensive statistical system and a long history of fielding household surveys on such diverse topics as household income and expenditures (every one to two years), labor force activities (annually), demographics (annually), and a host of special topics. Also as in Bangladesh, the data collected by the Federal Bureau of Statistics (FBS) was seldom analyzed outside government circles prior to 1987. Work on poverty in Pakistan was fairly limited before 1987. Social debate on poverty in Pakistan is likewise limited; the government did not even have an official poverty line. There was an almost universal perception among senior government officials that poverty was no longer a problem in Pakistan—that the high poverty seen in the 1960s and 1970s must have been eradicated by Pakistan's sustained high rates of economic growth throughout the period.

Pakistan, like other countries in the region, has received various kinds of support from the donor community over the past two decades to assist in developing its statistical system. For example, in the mid-1980s a UN Household Survey Capability Program (UNHSCP), designed to improve the quality of statistics on women, was implemented in Pakistan with monetary support from the Canadian International Development Agency (CIDA). Beginning in the late 1980s the Netherlands provided additional support to the FBS to improve its overall statistical capacity, and the U.S. Bureau of the Census provided computer software, hardware, and extensive training in the use of new software and equipment. However, none of these programs focused explicitly on poverty measurement or poverty monitoring.

To fill this gap, the Bank, with financial support from the UNDP and USAID, initiated an LSMS project in 1988/89; the first LSMS survey was implemented in the field in 1991. The project built on prior capacity building efforts supported by the UNHSCP and the Netherlands. The Pakistan LSMS focused on improving the measurement and profile of poverty; the availability and quality of statistics on the coverage and use of social services; and the availability and quality of statistics on the social and economic status of women in Pakistan. Efforts were made to ensure close cooperation with other programs of technical assistance and support to the FBS.

The LSMS data provided the basis for an update of the Pakistan poverty assessment in fiscal 1996 and was used in subsequent discussions with the government on gender and on provision of social services. The LSMS database was of fundamental importance in providing better information on the social and economic status of women in Pakistan—a central concern in the Bank's strategic support for poverty reduction and improved living conditions in Pakistan. A new round of the LSMS was fielded in 1995/96 under the auspices of the Multidonor Support Unit (MSU) of the World Bank's Social Action Program. The MSU was set up under the Social Action Program to facilitate better coordination between the aid programs of a number of donors involved in the social sectors. The new round of the LSMS is being used to help in monitoring the effect on the poor and other vulnerable groups of the Social Action Program, which covers health, basic education, rural water supply, and family planning. In addition, the second round of the Pakistan LSMS is currently being used to update poverty estimates and identify changes in levels and conditions of the poor since 1991. Additional work on poverty will also be undertaken using the most recent rounds of the FBS's annual household expenditure surveys (HES).

Awareness of and concern about poverty issues and poverty monitoring have increased dramatically in Pakistan since 1987, in large part because of pressures from the Bank and other donors. Beginning in the early 1990s the FBS has begun to make its survey

information, including data collected under the auspices of the LSMS project, more readily available to local and international researchers. Access to this information has facilitated a great deal of interesting and useful analyses, including work on women and children and on access to social services. Gender conditions and disparities are an important factor in the ongoing IDA dialogue on poverty and living conditions in Pakistan. While much remains to be done (for example, on short-term poverty indicators and evaluation of project impacts) clear progress has been made on poverty measurement and monitoring.

East Asia and the Pacific

Cambodia

The first Socio-Economic Survey of Cambodia (SESC) was conducted in 1993/94 by the National Institute of Statistics with the support of the Asian Development Bank and the UNDP. The purpose of the survey was to construct the cost-of-living index for use in the national income accounts. This survey was also used to produce estimates of the magnitude and regional distribution of poverty. In 1996 the National Institute of Statistics conducted the second SESC, which was more comprehensive than the first survey in its population coverage and in its scope, covering such topics such as migration, employment, morbidity, schooling, fertility, housing characteristics, and child nutritional status. However, the second SESC does not collect detailed consumption expenditure and thus will not be capable of generating consumption-based measures of poverty. The surveys have played a critical role in developing the ingredients of a national survey system on the distribution of living standards in Cambodia. The technical assistance given to these initial surveys has greatly enhanced institutional capacity at the National Institute of Statistics. However, the operation of the system has not been institutionalized so that the surveys can be sustained on a regular basis. To ameliorate the situation, a two-year program of technical assistance, funded by the UNDP and the Swedish International Development Authority (SIDA) and executed by the World Bank, has recently been implemented. The project is designed to institutionalize the household survey system as part of a systematic, long-term, regular effort to evaluate the extent and nature of poverty in Cambodia, to monitor progress over time, and to evaluate the effectiveness of specific targeted antipoverty interventions. The information to be collected under the surveys will include a core survey yielding provincial-level estimates of basic poverty and welfare indicators (for example, unemployment rates, labor force participation rates, immunization coverage, utilization rates of health facilities, gross and net enrollment rates, and housing conditions); rotating specialized modules for a subsample of households that will allow analysis of economic and social relationships; a community survey providing information on prices, unskilled wage rates, and physical and social infrastructure at the village level; and qualitative assessments of poverty based on a range of methodologies. The project will also help build local capacity for poverty analysis and policy formulation in Cambodia.

Vietnam

The Bank has provided support for data collection and analysis in Vietnam since the early 1990s. The country's first nationally representative multipurpose household survey was carried out jointly by the State Planning Commission and the General Statistics Office in 1992–93, with technical assistance from the Bank and funding from the UNDP and SIDA. The data collected in the LSMS was analyzed extensively for the fiscal 1995 poverty assessment. A second LSMS is scheduled to go into the field in November 1997. This survey will enable the government to analyze how the transition is affecting Vietnamese households and to monitor progress on poverty. The sample size of about 6,000 households will include a panel of about 3,000–4,000 households that were surveyed in the first LSMS. Technical assistance is an important part of the project design for the second LSMS. Its focus is on building the capacity of the General Statistics Office to conduct future household surveys. Technical assistance will also be provided to integrate the LSMS survey and the household budget survey currently conducted annually by the General Statistics Office into one survey instrument, with the emphasis on quality and timely results.

Sub-Saharan Africa

There are 41 IDA-eligible countries in Sub-Saharan Africa, and a national household survey (either a priority survey or an integrated survey) is available for 35 of them. The quality of the surveys, the strength of the statistical institutions, and the nature of continued poverty-monitoring activities varies considerably. Malawi and Zimbabwe provide two excellent

examples of countries with strong poverty-monitoring action plans. Not all countries have such comprehensive plans, but the Bank is working with almost all countries to strengthen their capacity to improve poverty monitoring and their statistical institutions generally.

Malawi

In recent years the government of Malawi has conducted several national surveys that can be used to monitor key poverty indicators: the Household Expenditure and Small-Scale Activities (HESSEA) survey in 1990/91, the six-module National Sample Survey of Agriculture (NSSA) in 1993/94, and the Food Security and Nutrition Survey in 1993/94. IDA and other donors have been the main sources of finance for each of these surveys.

As a result of these and other large- and small-scale surveys, an abundance of data relevant for the analysis of household welfare in Malawi exists. Unfortunately, analytical capacity has not been strengthened systematically or linked directly to the analysis and use of the data collected. Moreover, in many cases the survey methodologies are not comparable with each other, resulting in some duplication and inhibiting comparative analysis across regions and across time.

New institutional framework. As a consequence of these problems, and in line with the emphasis that the newly elected government has placed on poverty reduction, the government in 1994–95 initiated major efforts to strengthen and coordinate poverty monitoring activities. A Poverty Monitoring System (PMS) was established to address a number of the strategic objectives:

- Building a unified and cost-effective system of data collection utilizing household surveys, rapid appraisal surveys, administrative reporting systems, and participatory assessments
- Planning the statistical and participatory information needs for poverty monitoring over a longer-term in order to avoid ad hoc and duplicative efforts in the future
- Ensuring that the collected data is utilized for improving the effectiveness of policies and programs.

The process of building a Poverty Monitoring System has been broadly consultative within the country and has emphasized the utilization and rationalization of existing data collection structures. Specifically, the government has established a national Technical Working Committee (TWC) for poverty monitoring, with representation from all the relevant government institutions, including the National Statistical Office (NSO), and the health, education, agriculture, and planning ministries; the principal research institutes; NGOs; and various donor agencies that are users and producers of poverty data. The goal of the TWC is to establish an institutional framework for a coordinated poverty-monitoring system. The TWC's terms of reference include identification of priority poverty indicators for monitoring, stocktaking of existing monitoring activities, identification of gaps, and development of a plan of action for poverty monitoring. A Poverty Monitoring Unit (PMU) has been established within the Ministry of Economic Planning and Development to serve as a secretariat for the TWC.

The TWC is building its coordinating capacity gradually. Thus far it has identified a list of core poverty indicators, compiled a time-series database of available data on these indicators, taken inventory of the existing data collection mechanisms (household or community-based and administrative systems), and produced a draft newsletter providing key information on recent surveys and studies and requesting regular information on studies planned by local agencies and donors.

Poverty Monitoring System and IDA support. IDA and UNICEF have been integrally involved with the development of this system from its inception, mainly through the provision of technical assistance. The government expects donors to assist in the coordinated poverty monitoring effort by financing elements of the core program identified by the TWC. In this spirit, under the Poverty Monitoring Support Facility (PMSF) component of the Malawi Social Action Fund (MASAF), which became effective July 1996. IDA has committed approximately US$1 million to the poverty-monitoring system. The PMSF is designed to finance the essential building blocks for the collection and analysis of data relevant for tracking progress in poverty reduction and to help guide the formulation of poverty alleviation policies and programs. The three main areas are:

- Strengthening the technical capacity of institutions to coordinate, collect, analyze, disseminate, and use data relevant for poverty reduction policies and programs
- Developing an Integrated Household Survey Program in the National Statistical Office (NSO)
- Providing funds for a program to analyze existing data and data to be collected under the Integrated Household Survey Program.

The PMSF is further designed so that particular activities to be financed under the it will be specified by the TWC (in agreement with IDA) at the beginning of each annual period on the basis of a planning exercise to determine the range of activities that are deemed to have priority for achieving the Poverty Monitoring System's objectives. IDA financing will complement other funds from the government and from donors. At present, IDA is assisting the TWC in finalizing its strategic work plan, as well as an annual work program, and in negotiating additional donor financing for the poverty-monitoring system.

The PMSF will finance an annual report on poverty, economic and social policy, drawing together the different data and study findings to ensure the dissemination and use of the information as input into further development of the poverty reduction strategy.

In addition to the PMSF, IDA has provided support to other activities to strengthen the capacity of institutions to monitor living conditions. These activities include a study tour for key officials of the NSO, the Centre for Social Research (CSR), and the Ministry of Planning to five countries of the region to review poverty monitoring systems in those countries, and a study tour by NSO, the CSR, and Bunda College to Washington, D.C., to learn poverty measurement methods and the manipulation of the processed household data used for the poverty profile. A copy of the data was taken back for further analysis by Malawian institutions.

Recent studies. Several major studies have recently been completed in support of the government's poverty monitoring initiative. Table H-1 presents a selected list.

Plan of action for monitoring poverty in Malawi. The immediate objectives of the Poverty Monitoring System are to make available information on core poverty indicators in ways that will assist policy makers, donors, and NGOs to monitor the impact of interventions on the poor and to initiate further poverty reduction policies and programs based on the progress made in poverty reduction. The associated objective is to do this in the most cost-effective way possible. The elements summarized in table H-2 constitute an action plan for fiscal 1997 toward these ends. The set of actions will be coordinated by the TWC.

Zimbabwe

At the beginning of the 1990s the incidence of poverty in Zimbabwe was about 25 percent, a level much lower than in most other Sub-Saharan African countries. It is generally recognized that the incidence of poverty is likely to have increased over the past few years due to a combination of slow growth, severe droughts and the developing AIDS crisis. The main focus of a systematic effort to monitor changes in the living conditions of the population appears to be the Sentinel Surveillance surveys fielded by the Ministry of Public Services, Labour, and Social Welfare. These surveys have been carried out semiannually to monitor the effects of key structural reform measures (cost recovery, market liberalization, and so on). A comprehensive Income, Consumption and Expen-

Table H-1: Recent studies on social and economic indicators of living standards, Malawi

Study	*Coverage*	*Main collaborating institutions*	*Main source of funds*
Food Security in a Market-Oriented Economy (August 1996)	National Analysis of food security issues at macro and household levels	Government of Malawi, USAID, IDA, other donors	USAID
Risk-Mapping (preliminary report, May 1996)	National Food economy zone analysis	Save the Children (UK)	Save the Children (UK)
Human Resources and Poverty: Profile and Priorities for Action (November 1995, March 1996)	National Analysis of poverty prevalence and characteristics of poor households using HESSEA (1990/91) and NSSA (1992/93) disaggregation to the Rural Development Project levels	Government of Malawi (including the National Statistical Office, and the Ministry of Economic Planning and Development), IDA, Centre for Social Research, and Bunda College	IDA
Social Indicators Survey Report (data of 1995; to be published)	National Health, education, and child malnutrition indicators at the household level	UNICEF, NSO, CSR	UNICEF

diture Survey (ICES) was carried out for 1990/91 but the data were not widely available for analysis.

In 1995, as part of its newly formulated Poverty Alleviation Action Plan, the government of Zimbabwe initiated a Poverty Assessment Study Survey (PASS) with national coverage to obtain information on the living conditions of households. Unfortunately, this survey was based on a single visit to households, and it employed a methodology that rendered the results incomparable with the 1990/91 ICES findings. In the meantime, another ICES was fielded in 1995/96, but its analysis has been constrained by the personnel turnover and other capacity and resource problems within the Central Statistical Organization (CSO), as well as restrictive guidelines on release of data to users. In sum, the effort to accurately monitor changes in income distribution and poverty in Zimbabwe is currently constrained by data release guidelines and ad hoc and largely uncoordinated efforts.

In the past year the government has initiated several changes in the structure of the PAAP. As an explicit objective of the PAAP and of its coordinating body, the Social Development Fund (SDF) of the Ministry of Public Services, the government has declared its intention to introduce longer-term planning and coordination of poverty monitoring and analysis activities.

Poverty monitoring and IDA support. During preparation of a community development project (CDP), IDA expressed its support for the government's initiative for greater coordination of monitoring activities. The IDA poverty mission in November 1995 noted that several different public authorities and NGOs are currently engaged in collecting information on living conditions and food security of households. Greater coordination between these data collection efforts would avoid costly duplication and improve the availability of timely, reliable data that are comparable across regions and across time. Enhanced cooperation between data users and producers would also improve the focus of individual survey instruments and may ensure better utilization of the data for analyzing the impact of policies and targeted interventions on poverty reduction.

IDA has proposed that, as part of the development of the PAAP component on poverty monitoring and strategic planning, the government explore institutional mechanisms to improve coordination between institutions that collect, analyze, disseminate, or utilize poverty-relevant data. IDA financing for the proposed CDP could include resources to support this process. Key areas that would need to be developed include:

- Identifying and building consensus on core indicators of poverty to monitor the effects of policy reforms and program interventions
- Building on existing institutional processes to coordinate data collection activities by users and producers of poverty-relevant data over a planned time horizon
- Identifying the demand, scope, and modalities for a study fund that could support specific poverty-related studies
- Developing a geographic targeting and project impact assessment system for the CDP that would be integrated into the broader poverty monitoring effort.

IDA and UNICEF are collaborating closely in assisting the government in these areas. Plans are in place for a team of consultants to hold wide-ranging consultations and assist the government to develop the main guidelines for the institutional framework of a social conditions or poverty monitoring system. The team was recently appointed.

In order to take stock of the existing findings on poverty and income distribution and the changes in these areas in recent years, IDA is in the process of preparing a study that synthesizes available data and existing studies. The study proposes an agenda for future action and research necessary to reduce poverty in Zimbabwe. The study was discussed widely with NGOs, academics, and members of government in order to build consensus on how to reduce poverty, and to identify IDA's own analytical priorities. The discussions have led to the identification of further small studies that are now in progress and on others for which proposals are being prepared. Discussions were also held with the Central Statistical Office on collaborative analysis of the ICES 1995/96 data and with the PASS team regarding data quality issues and the possibility of future collaborative analysis of the PASS data.

On the basis of discussions with users and producers of poverty data, an action plan is being proposed for developing a coordinated poverty monitoring system in Zimbabwe (see table H-3).

Table H-2: Poverty Monitoring Action Plan for Fiscal 1997, Malawi

Main activity	*Lead agency*	*Performance indicator*	*Source of funds*
Data collection			
Integrated Household Survey Program	NSO	Completion of and consensus on questionnaire design Completion of design of data processing and plan of analysis Selection of sample to obtain representativeness at district level Start of data collection	Government of Malawi, PMSF (IDA) for design phase Government of Malawi, and others to be determined for implementation phase
Monitoring for Empowerment (M4E)	World Food Programme	Publication of findings Implementation of second round	WFP, UNICEF, others
Famine Early Warning System (FEWS)	USAID, FEWS unit of Ministry of Agriculture and Livestock Development	Institutionalize within government of Malawi	Government of Malawi, USAID
Health Information System	Community Health Sciences Unit, Ministry of Health	Dissemination of 1995 data Analysis of primary enrollment trend since free primary education	PMSF (tentative)
School Census	Ministry of Education	Dissemination of 1995 data Analysis of primary enrollment trend since free primary education	PMSF (tentative)
MASAF Beneficiary Assessments	MASAF Management Unit	Preparation of terms of reference Appointment of team to conduct beneficiary assessments Completion of beneficiary assessments Feedback into project design of beneficiary assessment findings	PMSF
Analysis and use of data			
Social Accounting Matrix (SAM)	Bunda College, Ministry of Economic Planning and Development in collaboration with International Food Policy Research Institute (IFPRI)	Financing of proposal Completion of Phase I, which would produce an initial complete Social Accounting Matrix	PMSF (tentatively), to be determined
Growth Options and Distribution Study	IDA	Discussion of concept paper with government Completion of background studies	Bank Budget
Analysis of Food Security and Nutrition Survey 1993/-94	Population, health, and nutrition project (PHN) implementation unit	Completion and dissemination of results	PHN Sector Credit (IDA)

Main activity	*Lead agency*	*Performance indicator*	*Source of funds*
AIDS Study	IDA	Preparation of issues paper Completion of draft report	IDA
Medium Term Expenditure Review	Government of Malawi, IDA	Completion of expenditure analysis for health, education, and agriculture sectors	Government of Malawi, IDA
Coordination, dissemination, and capacity strengthening			
Strengthening the TWC and its secretariat, the Poverty Monitoring Unit (PMU)	PMU, Bunda College	Financing of proposal made for technical assistance to PMU, CSR, and NSO from IFPRI resident research fellows for two to three years Recruitment and placement of IFPRI fellows	PMSF, others to be determined
Coordination between data collection activities and between planned studies	TWC	Regular reporting to TWC by donors, local agencies on data collection plans and studies Poverty Monitoring System quarterly newsletter dissemination	Government of Malawi
Prioritizing resource use across data collection and analysis	PMU	Logical framework analysis workshop to finalize annual work plan and longer-term strategic work plan IDA agreement to annual work plan	Government of Malawi, IDA
Synthesis and dissemination of findings	PMU	Preparation of database on core poverty indicators Completion of Annual Poverty Report synthesizing findings from small and national studies and updating core poverty indicators Dissemination of annual poverty report Coordination with UNDP-financed *Human Development Report*	Government of Malawi, PMSF

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Table H-3: Poverty monitoring action plan for fiscal 1997, Zimbabwe

Main activity	*Lead agency*	*Performance indicator*	*Source of funds*
Poverty monitoring coordination	Ministry of Public Services, Labor and Social Welfare (MPSLSW) (and consultants)	Consensus building (through workshops, etc.) on the core poverty indicators Preparation of study on institutional framework for monitoring and analysis system Inventory of existing data collection mechanisms Identification of cost-effective and integrated system of survey instruments over the medium term	IDA, UNICEF, Community Development Project, and Policy in Human Resources Development
Development of poverty-based targeting mechanism	MPSLSW (and consultants)	Access to district-level PASS data Workshops to establish analytical hierarchy of poverty indicators for targeting index Finalization of inter-district ranking index Piloting application of targeting mechanism under the CDP pilot phase	IDA, CDP, PHRD
Analysis of national household surveys	Central Statistical Office (CSO), PASS team, IDA	Development of a plan of analysis of ICES 1996/97 Workshops to build analytical capacity at CSO and the University of Zimbabwe Draft report on district-level analysis of PASS	IDA, to be determined
Small studies			
Dynamics of poverty in communal areas	IDA and consultants	Completion of field work	IDA, Netherlands Trust Fund for Poverty Assessments
Impact of structural reforms on livelihoods of poor	IDA, UK Overseas Development Agency (ODA), University of Zimbabwe	Completion of report and dissemination of findings	IDA, ODA, Netherlands Trust Fund
Changes in agri-cultural marketing	IDA, University of Zimbabwe	Completion of field work Dissemination of preliminary findings	IDA, ODA, Netherlands Trust Fund
Poverty implications of Land Tenure Commission report	IDA and Center for Agrarian and Environmental Research	Finalization of proposal Identification of funding Completion of report	To be determined
Systematic client consultation on institutional relations in rural areas	MPSLSW, IDA	Appointment of team Identification of SCC sites Workshops to discuss interim and final findings Input of findings in project design	IDA, PHRD

Annex I Projects and Adjustment Operations with Safety Net Components, Fiscal 1996-97

Country	*Title*	*Amount (US$ millions)*
Stand-alone safety net projects		
Argentina	Second Social Protection (fiscal 1997)	200
Belize	Social Investment Fund (fiscal 1997)	7
Egypt	Second Social Fund (fiscal 1996)	120
Haiti	Employment Generation (fiscal 1996)	50
Jamaica	Social Investment Fund (fiscal 1997)	20
Latvia	Welfare Reform Program (fiscal 1997)	18
Madagascar	Social Fund II (fiscal 1996)	40
Malawi	Social Action Fund (fiscal 1996)	56
Mongolia	Poverty Alleviation for Vulnerable Groups (fiscal 1996)	10
Panama	Social Investment Fund (fiscal 1997)	28
Peru	Second Social Development and Compensation Fund (FONCODES) (fiscal 1997)	150
Yemen, Rep of	Public Works (fiscal 1996)	25
	Social Fund for Development (fiscal 1997)	30
Predominantly safety net projects		
Albania	Urban Works and Microenterprise Pilot (fiscal 1996)	4
Bangladesh	Poverty Alleviation and Microfinance (fiscal 1997)	105
Brazil	Northeast Rural Poverty Alleviation (fiscal 1997)	24
	Rural Poverty Alleviation-Pernambuco (fiscal 1997)	39
	Rural Poverty Alleviation-Piaui (fiscal 1997)	30
Morocco	Social Priorities Program (fiscal 1996)	28
Projects with safety net spin-offs		
Honduras	Third Social Investment Fund (fiscal 1996)	30
Niger	Urban Infrastructure Rehabilitation (fiscal 1997)	20
Russia	Coal Sector Restructuring Implementation Assistance (fiscal 1996)	25
Tajikistan	Pilot Poverty Alleviation (fiscal 1997)	12
Adjustment operations		
Algeria	Structural Adjustment Loan (fiscal 1996)	300
Argentina	Health Insurance Reform Loans (fiscal 1996)	350
Armenia	Structural Adjustment (fiscal 1996)	60
Azerbaijan	Rehabilitation Credit (fiscal 1996)	65
Bulgaria	Critical Imports Rehabilitation Loan (fiscal 1997)	40
	Rehabilitation Loan (fiscal 1997)	30

Country	*Title*	*Amount (US$ millions)*
Chad	Second Structural Adjustment Credit (fiscal 1997)	25
Georgia	Structural Adjustment Credit (fiscal 1996)	60
Macedonia, FYR	Structural Adjustment Loan And Credit (fiscal 1997)	30
Papua New Guinea	Economic Recovery Loan (fiscal 1996)	50
Romania	Social Protection Adjustment Loan (fiscal 1997)	50
Russia	Coal Sector Adjustment Loan (fiscal 1996)	500
	Social Protection Adjustment Loan (fiscal 1997)	800
Tajikistan	Agricultural Recovery and Social Protection Credit (fiscal 1997)	50
Togo	Economic Recovery and Adjustment Credit (fiscal 1996)	50
Ukraine	Coal Sector Adjustment Loan (fiscal 1997)	300

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